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2d Session

HOUSE OF REPRESENTATIVES

REPORT
No. 97-1005

REPORT
ON
LEGISLATIVE REVIEW ACTIVITY
DURING THE 97TH CONGRESS
OF THE
COMMITTEE ON
WAYS AND MEANS



JANUARY 3, 1983.—Committed to the Committee of the Whole House
on the State of the Union and ordered to be printed

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(II)

LETTER OF TRANSMITTAL

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., December 30, 1982.

Hon. THOMAS P. O'NEILL, Jr.,
The Speaker, House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: I am herewith transmitting, pursuant to the Rules of the House of Representatives, the report of the Committee on Ways and Means on its legislative review activity during the 97th Congress.

Sincerely,

DAN ROSTENKOWSKI, *Chairman.*
(III)

REPORT ON LEGISLATIVE REVIEW ACTIVITY DURING
THE 97TH CONGRESS OF THE COMMITTEE ON WAYS
AND MEANS

JANUARY 3, 1983.—Committed to the Committee of the Whole House on the
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Mr. ROSTENKOWSKI, from the Committee on Ways and Means,
submitted the following

R E P O R T

LEGISLATIVE REVIEW ACTIVITY OF THE COMMITTEE ON WAYS AND MEANS
DURING THE 97TH CONGRESS

FOREWORD

Section 136 of the Legislative Reorganization Act of 1946, as originally enacted, provided for legislative review by standing committees of the House of Representatives of the execution of laws falling within the jurisdiction of such committees. The Legislative Reorganization Act of 1970 (Public Law 91-510) and Public Law 92-136 amended the 1946 provision to add the requirement that the jurisdictional standing committees of the House file in "each odd numbered year * * * not later than January 2 * * * a report on the activities of that committee * * * during the Congress ending at noon on January 3 of such year".

The full text of section 136 of the Legislative Reorganization Act of 1946 (2 U.S.C. 190d), as amended by the Legislative Reorganization Act of 1970 (Public Law 91-510), by Public Law 92-136 and by Public Law 93-344 is provided below:

SEC. 136. (a) In order to assist the Congress in—

(1) Its analysis, appraisal, and evaluation of the application, administration, and execution of the laws enacted by the Congress, and

(2) Its formulation, consideration, and enactment of such modifications of or changes in those laws, and of such additional legislation, as may be necessary or appropriate.

each standing committee of the Senate and the House of Representatives shall review and study, on a continuing basis,

the application, administration, and execution of those laws, or parts of laws, the subject matter of which is within the jurisdiction of that committee. Such committees may carry out the required analysis, appraisal, and evaluation themselves, or by contract, or may require a Government agency to do so and furnish a report thereon to the Congress. Such committees may rely on such techniques as pilot testing, analysis of costs in comparison with benefits, or provision for evaluation after a defined period of time.

(b) In each odd-numbered year beginning on or after January 1, 1973, each standing committee of the Senate shall submit, not later than March 31, to the Senate, and each standing committee of the House shall submit, not later than January 2, to the House, a report on the activities of that committee under this section during the Congress ending at noon on January 3 of such year.

(c) The preceding provisions of this section do not apply to the Committees on Appropriations and the Budget of the Senate and the Committees on Appropriations, the Budget, House Administration, Rules, and Standards of Official Conduct of the House.

The following report is submitted by the Committee on Ways and Means pursuant to the above provisions of law.

LEGISLATIVE JURISDICTION

The legislative jurisdiction of the Committee on Ways and Means during the 97th Congress was provided by rule X, clause 1 of the Rules of the House of Representatives, as follows:

(v) Committee on Ways and Means—

(1) Customs, collection districts, and ports of entry and delivery.

(2) Reciprocal trade agreements.

(3) Revenue measures generally.

(4) Revenue measures relating to the insular possessions.

(5) The bonded debt of the United States.

(6) The deposit of public moneys.

(7) Transportation of dutiable goods.

(8) Tax-exempt foundations and charitable trusts.

(9) National social security, except (A) health care and facilities programs that are supported from general revenues as opposed to payroll deductions and (B) work incentive programs.

In the 97th Congress, the Committee on Ways and Means had six standing subcommittees:

Subcommittee on Oversight;

Subcommittee on Social Security;

Subcommittee on Health;

Subcommittee on Trade;

Subcommittee on Public Assistance and Unemployment Compensation; and

Subcommittee on Select Revenue Measures.

Under Rule 4(6) of the Rules of the Committee on Ways and Means, the jurisdiction of the Subcommittee on Oversight:

* * * shall include all matters within the scope of the Committee but shall be limited to existing law and said oversight jurisdiction shall not be exclusive but shall be concurrent with that of the other subcommittees, and with respect to matters involving the Internal Revenue Code said concurrent jurisdiction shall be shared with the full Committee. Before undertaking any investigation or hearing of the Chairman of the Subcommittee on Oversight shall confer with the Chairman of the full Committee and the Chairman of any other subcommittee having jurisdiction.

Pursuant to this provision of the committee's rules, each of the legislative subcommittees and the full committee have conducted oversight activities in their own areas of jurisdiction, while the Subcommittee on Oversight has provided special attention to particular areas of concern to the committee.

While the Committee on Ways and Means has always provided legislative review of the programs under its jurisdiction, largely through its tradition of frequent and extensive public hearings, the establishment of specific subcommittees in 1974, including the Subcommittee on Oversight, has significantly increased the committee's legislative review capability. The legislative review activities of the committee and its subcommittees during the 97th Congress will result in increased efficiency and effectiveness in the administration of the laws and programs under the committee's jurisdiction, resulting in considerable savings in the years ahead.

The memberships of the six subcommittees of the Committee on Ways and Means in the 97th Congress are as follows:

SUBCOMMITTEE ON OVERSIGHT

CHARLES B. RANGEL, New York, *Chairman*

SAM M. GIBBONS, Florida	MARTY RUSSO, Illinois
J. J. PICKLE, Texas	PHILIP M. CRANE, Illinois
ED JENKINS, Georgia	W. HENSON MOORE, Louisiana
FRANK J. GUARINI, New Jersey	JOHN J. DUNCAN, Tennessee
JAMES M. SHANNON, Massachusetts	JAMES G. MARTIN, North Carolina

SUBCOMMITTEE ON SOCIAL SECURITY

J. J. PICKLE, Texas, *Chairman*

ANDY JACOBS, Jr., Indiana	WYCHE FOWLER, Jr., Georgia
RICHARD A. GEPHARDT, Missouri	BILL ARCHER, Texas
JAMES M. SHANNON, Massachusetts	BILL GRADISON, Ohio
WILLIAM M. BRODHEAD, Michigan	JOHN H. ROUSSELOT, Calif.
CECIL (CEC) HEFTTEL, Hawaii	PHILIP M. CRANE, Illinois

SUBCOMMITTEE ON HEALTH

ANDY JACOBS, Jr., Indiana, *Chairman*

CHARLES B. RANGEL, New York	BILL GRADISON, Ohio
HAROLD FORD, Tennessee	JOHN J. DUNCAN, Tennessee
KEN HOLLAND, South Carolina	PHILIP M. CRANE, Illinois
BERYL ANTHONY, Jr., Arkansas	

SUBCOMMITTEE ON TRADE

SAM M. GIBBONS, Florida, *Chairman*

DAN ROSTENKOWSKI, Illinois
 JAMES R. JONES, Oklahoma
 ED JENKINS, Georgia
 THOMAS J. DOWNEY, New York
 DON J. PEASE, Ohio
 KENT HANCE, Texas
 WILLIAM M. BRODHEAD, Michigan
 DON BAILEY, Pennsylvania

GUY VANDER JAGT, Michigan
 BILL ARCHER, Texas
 BILL FRENZEL, Minnesota
 L. A. (SKIP) BAFALIS, Florida
 RICHARD T. SCHULZE, Pennsylvania

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATIONHAROLD FORD, Tennessee, *Chairman*

FORTNEY H. (PETE) STARK, California
 DON J. PEASE, Ohio
 KENT HANCE, Texas
 ROBERT T. MATSUI, California
 DON BAILEY, Pennsylvania
 BERYL ANTHONY, Jr., Arkansas

L. A. (SKIP) BAFALIS, Florida
 JOHN H. ROUSSELOT, California
 BILL GRADISON, Ohio
 W. HENSON MOORE, Louisiana

SUBCOMMITTEE ON SELECT REVENUE MEASURES

FORTNEY H. (PETE) STARK, California, *Chairman*

KEN HOLLAND, South Carolina
 WYCHE FOWLER, Jr., Georgia
 MARTY RUSSO, Illinois
 ROBERT T. MATSUI, California
 CECIL (CEC) HEFTEL, Hawaii
 FRANK J. GUARINI, New Jersey

JOHN J. DUNCAN, Tennessee
 RICHARD T. SCHULZE, Pennsylvania
 GUY VANDER JAGT, Michigan
 W. HENSON MOORE, Louisiana

The legislative review activities of the committee and its subcommittees in the 97th Congress in each major jurisdictional area are discussed below.

THE INTERNAL REVENUE CODE AND TAX ADMINISTRATION

A. REVIEW OF REVENUE PROCEDURE 80-55

The Subcommittee on Select Revenue Measures held a public hearing on Revenue Procedure 80-55. Revenue Procedure 80-55 would have disallowed deductions for interest paid by commercial banks or thrift institutions on certificates of deposit issued to state and local governments when the deposits are made for a specific period of time and are secured by pledges of tax-exempt obligations. Issued by the Internal Revenue Service on December 15, 1980, Revenue Procedure 80-55 was intended to provide taxpayers with guidelines for the application of section 265(2) of the Internal Revenue Code which denies deductions for interest on indebtedness incurred or continued to purchase or carry obligations where interest is exempt from tax.

Considerable controversy surrounded the issuance of this revenue procedure. The banking community and state and local governments anticipated serious adverse consequences upon implementation of Revenue Procedure 80-55, since approximately 35 states require some form of collateralization for government bank deposits. The effective date of the revenue procedure was deferred to June 1, 1981 to give the new Administration an opportunity to examine it, particularly in light of the controversy it engendered.

The Internal Revenue Service announced at the Subcommittee's hearing that it would withdraw Revenue Procedure 80-55, after a comprehensive review of the legal basis for the revenue procedure,

and its effects on the municipal bond market, state and local governments, and the banking system.

The Treasury Department and the Internal Revenue Service, however, are continuing to study the extent to which banks should be excepted from the application of section 265(2) and may eventually propose legislative changes.

In an issue related to Revenue Procedure 80-55, Congress in the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) approved a provision disallowing a deduction for 15 percent of the otherwise allowable interest deduction for debt incurred or continued to purchase tax-exempt obligations acquired after 1982 in the case of financial institutions (section 291 of the Act).

B. TAX TREATMENT OF EMPLOYEE FRINGE BENEFITS

The Subcommittee on Select Revenue Measures continued the Committee's oversight of the development of rules governing the tax treatment of employee fringe benefits. Early in the first session of the 97th Congress, the Chairman of the Subcommittee on Select Revenue Measures formally asked the Treasury Department to give high priority to a review of the tax treatment of employee fringe benefits, in light of the imminent expiration of the moratorium on the issuance of regulations governing the tax treatment of fringe benefits on June 1, 1981. The Subcommittee held a public hearing on the tax treatment of employee fringe benefits to examine the results of the new Administration's review of this issue. Testimony describing draft rules for the tax treatment of fringe benefits was taken from the Treasury Department and the Internal Revenue Service.

The Committee on Ways and Means subsequently approved a two year extension, through May 31, 1983, of the moratorium on the issuance of final regulations on the tax treatment of fringe benefits in section 805 of H.R. 4242, the Tax Incentive Act of 1981. An extension through December 31, 1983 was finally enacted in the Economic Recovery Tax Act of 1981 (section 801 of Public Law 97-34).

C. TAX TREATMENT OF THE BUSINESS EXPENSES OF STATE LEGISLATORS

The Subcommittee on Select Revenue Measures held a public hearing to consider the extension and revision, if appropriate, of the provisions of the Tax Reform Act of 1976 (as extended by the Tax Reduction and Simplification Act of 1977, and Public Laws 95-258, and 96-167 to taxable years beginning before January 1, 1981), giving State legislators an election to treat their residences within their legislative district as their tax homes, for purposes of computing the deduction for away-from-home business expenses. Testimony was taken from the Treasury Department, Members of Congress, and State legislators. Based on this testimony, the Committee on Ways and Means subsequently approved a two-year extension and modification of the State legislator provisions in H.R. 4242, the Tax Incentive Act of 1981 (section 802). This provision was finally enacted as a permanent rule in the Economic Recovery Tax Act of 1981 (section 127 of P.L. 97-34).

D. TAX ISSUES IN THE SALE OF PROFESSIONAL SPORTS FRANCHISES

The Subcommittee on Select Revenue Measures held a public hearing on the tax treatment of professional sports franchise transfers on May 1, 1981, in Oakland, California. The Subcommittee took testimony from 12 public witnesses and received written material submitted for the record relating to H.R. 2557, introduced by Subcommittee Chairman Fortney H. Stark. H.R. 2557 would treat certain relocations of sports franchises as "prohibited moves" which constitute a sale of the franchise for an amount equal to its fair market value at the time of the relocation. The provisions of the bill would not have applied in the event of a loss. Generally, a prohibited move would involve a change in the home stadium if more than 50 miles from the former franchise location. The Department of the Treasury did not testify at the hearing. There was no further Subcommittee or Committee action on H.R. 2557 in the 97th Congress.

E. COMMODITY TAX STRADDLES

The Committee on Ways and Means conducted a public hearing on the use of commodity futures transactions for tax-motivated purposes on April 30, 1981. Interest in the use of tax straddles in commodity futures had grown rapidly in recent years and the Internal Revenue Service had disallowed certain deductions relating to such transactions. Some taxpayers were litigating the issue and several cases were before the United States Tax Court.

As a result of the hearing, the Committee became aware of the widespread tax shelter potential of certain transactions in commodity futures. The tax advantages of spread transactions in futures were being touted in commodity manuals, tax services and financial journals and the use of such shelters had spread beyond commodity and investment professionals to significant numbers of taxpayers, both individual and corporate. The Committee was apprised of litigation involving the ruling position of the Internal Revenue Service (see Rev. Rul. 77-185, 1977-1 C.B. 48) where deficiency determinations had been made on the theory of that ruling. The Committee received testimony from Administration witnesses and the public on silver straddles, straddles in Treasury bills, currency future straddles, cash and carry transactions, and butterfly, or mirror image, spreads.

Based on the testimony received at the hearing and in written submissions, the Committee reported out legislation in July, 1981 (H.R. 4242, H. Rept. No. 97-201) containing, inter alia, a series of rules designed to limit tax-motivated commodity futures transactions by disallowing losses on straddles to the extent such losses exceed gains from both straddle transactions and net non-straddle commodity transactions. The rule was designed to limit the use of straddle losses to defer income which is not related to commodity transactions and to prevent conversion of such income from short-term capital gain into long-term capital gain. These changes were expected to increase budget receipts by \$0.9 billion in fiscal year 1982. A similar provision was included in the amendment to the Committee bill which passed the House on July 29, 1981, and was later enacted into law in the Economic Recovery Tax Act of 1981 (Public Law 97-34).

F. DEBT COLLECTION

The Committee on Ways and Means conducted a public hearing on October 15, 1981, on H.R. 4613 and similar legislative proposals relating to debt collection.

In May of 1981, the Administration transmitted to Congress the legislative proposal entitled the "Debt Collection Act of 1981." This proposal was introduced as H.R. 3741 and referred to the House Committees on Government Operations, Post Office and Civil Service, Judiciary and Ways and Means. The provisions of this bill within the jurisdiction of the Ways and Means Committee were subsequently re-introduced as H.R. 4613.

In the Senate, the Administration's proposal was introduced as S. 1249 and referred to the Senate Committees on Governmental Affairs and Finance. The bill was reported with amendments from the Governmental Affairs Committee and the Senate Finance Committee held a hearing and markup on the bill. The Finance Committee amendments were included in H.R. 4613. Also in May, 1981, the House Committee on Government Operations reported, and the House passed, H.R. 2811, cited as the "Debt Collection Act of 1981." This measure included provisions within the jurisdiction of the Government Operations Committee that are similar to those included in the Administration's proposal on debt collection.

H.R. 4613 contained the following provisions within the Ways and Means Committee jurisdiction with regard to federal debt collection efforts: the use of social security numbers would be required in applying for federal credit assistance; the Internal Revenue Service could disclose to other federal agencies whether a federal credit applicant has an outstanding tax liability; the I.R.S. could disclose mailing addresses of taxpayers to other federal agencies for purposes of preparing a credit report and to third party agents for purposes of collecting a federal debt. New safeguards for these mailing addresses are provided, and those receiving such information are subject to the civil and criminal penalties for willful redisclosures in violation of the law.

Based on testimony received from Administration witnesses, the Committee approved H.R. 4613 (with an amendment in the nature of a substitute) on April 28, 1982 (H. Rept. No. 97-496, April 29, 1982). The legislation passed the House on May 5, 1982 under suspension of the rules by a recorded vote of 402 to 3. (See proceedings of the House for May 4, 1982 for debate on the bill.) The legislation was broadened in the Senate with amendments, and passed by recorded vote (96-3) on September 28, 1982. On September 30, 1982, the House concurred in the Senate amendment with an amendment substituting the language of the House-passed version of H.R. 4613 for the tax-related provisions of the Senate omnibus version. The Senate concurred in the House amendment on October 1, 1982. The legislation was expected to increase budget receipts by \$100 million in fiscal year 1982. The bill was enacted as the Debt Collection Act of 1982 (Public Law 97-365, 96 Stat. 1749) on October 25, 1982.

G. LIFO RECAPTURE AND THE TREATMENT OF NET OPERATING LOSSES OF THE
FEDERAL NATIONAL MORTGAGE ASSOCIATION

The Committee on Ways and Means conducted a public hearing on December 7, 1981 on legislation involving the effective date of provisions of the Windfall Profit Tax Act of 1980 requiring recognition of income of last-in-first-out (LIFO) inventory reserves, and a proposal to conform the net operating loss carryback and carryforward treatment of the Federal National Mortgage Association (FNMA) to that of other financial institutions.

The Crude Oil Windfall Profit Tax Act of 1980 (Public Law 96-223) included two provisions relating to LIFO inventory profits. Section 403(a) provided that LIFO inventory profits will not be recognized in certain narrowly defined circumstances if the taxpayer purchases replacement inventory within a defined period.

Section 403(b) of the Act provided that a corporation which distributed its LIFO inventory in a partial or complete liquidation or sells its inventory in the course of a 12-month liquidation must recognize the inventory's recapture amount as ordinary income unless the adjusted basis of the LIFO inventory is carried over to the acquiring corporation; that is, in these cases, any gain attributable to the excess of the adjusted basis of the inventory under the FIFO method over its LIFO basis would be subject to tax as ordinary income.

This provision was to be effective with respect to dispositions made pursuant to plans of liquidation adopted after December 31, 1981. The conference agreement included the delayed effective date in order to allow time for Congressional hearings and to permit transactions in the planning stage to be completed.

Legislation had been introduced (H.R. 4717, 5011) to amend section 403(b) of Public Law 96-223 to defer the effective date of the LIFO recapture provision for one year to be effective with respect to dispositions made pursuant to liquidations adopted after December 31, 1982.

On November 18, 1981, legislation was introduced (H.R. 5013) to extend to FNMA the special rules for the carryback and carryforward of net operating losses that apply under Internal Revenue Code section 172(b)(1)(F) to depository institutions, such as commercial banks and savings and loan associations. FNMA is a government sponsored private corporation. Its purpose is to provide supplementary assistance to the secondary market for home mortgages by supplying a degree of liquidity for mortgage investments, thereby improving the distribution of investment capital available for home mortgage financing.

Under H.R. 5013, the Federal National Mortgage Association could, with respect to any net operating loss for a taxable year beginning after December 31, 1981, carry back such net operating losses ten years and carry forward such losses five years.

Based on the testimony of Administration witnesses, representatives of FNMA and the general public, on December 9, 1981, the Committee considered and approved H.R. 4717 with amendments (a slightly modified version of H.R. 5013, and a provision requiring information returns to be filed with the Internal Revenue Service with respect to certain safe harbor leasing transactions). (See H. Rept. No.

97-405, Dec. 14, 1981.) The legislation passed the House by voice vote on December 15, 1981, and passed the Senate with amendments on December 16, 1981. The Senate amendments were amendments approved by the Committee on Finance and included several provisions identical to some but not all of the provisions in House-passed H.R. 4961 and certain other tax and welfare provisions. A conference report on H.R. 4717 was filed on October 1, 1982 (H. Rept. No. 97-929) and on that same day was passed by both chambers. The legislation was expected to reduce budget receipts by \$89 million in fiscal year 1983. H.R. 4717 was enacted into law on October 25, 1982 as the Miscellaneous Revenue Act of 1982 (Public Law 97-362, 96 Stat. 1726).

H. REVIEW OF SECTION 280A REGULATIONS AND RELATED LEGISLATIVE PROPOSALS

The Subcommittee on Select Revenue Measures conducted a public hearing on issues relating to section 280A of the Internal Revenue Code. Enacted as part of the Tax Reform Act of 1976 (Public Law 94-455), section 280A disallows the deduction of certain expenses incurred in connection with the use of the taxpayer's home in a trade or business or income-producing activity or in connection with the rental of vacation homes and other residential real estate.

Controversy had arisen over the statute's denial of deductions in excess of income from the dwelling unit in the case of rentals to family members, and over proposed regulations issued by the Treasury Department interpreting section 280A. The Congressional moratorium on the implementation of the proposed regulations in H.J. Res. 610, providing for further continuing appropriations, expired on December 15, 1980. However, the Treasury Department had announced that the regulations would not become final before July 1, 1981 at the earliest.

Based on the testimony of the Treasury Department, Members of Congress, and the public, the Subcommittee developed and approved legislation, H.R. 4961, later approved by the Committee on Ways and Means, liberalizing the treatment of rentals of dwelling units to family members and certain co-owners. This provision was finally enacted in section 113 of the Black Lung Benefits Revenue Act of 1981 (Public Law 97-119).

At the Subcommittee hearing, the Treasury Department also announced clarifications to be made in the proposed regulations. These clarifications were also included in section 113 of the Black Lung Benefits Revenue Act of 1981 (Public Law 97-119).

I. AWARDING OF ATTORNEYS' FEES IN TAX LITIGATION

The Subcommittee on Select Revenue Measures continued the review it had initiated in the 96th Congress of the impact of the Equal Access to Justice Act of 1980 (Public Law 96-481) on the payment of attorneys' fees in tax cases. The Equal Access to Justice Act authorizes awards to a prevailing party, other than the United States, of fees and other expenses incurred in any civil action brought by or against the United States, unless the court finds that the position of the United States was substantially justified, or that special circumstances make an award unjust. This provision applies to tax cases in the Federal

district courts and U.S. Court of Claims, but not to cases in the United States Tax Court.

Because that legislation was never referred to the Committee on Ways and Means, no consideration was given to the effect of the Act on the administration of the tax laws nor to the unique characteristics of tax cases. Therefore, The subcommittee conducted a hearing shortly prior to the effective date of the Act, October 1, 1981. The Treasury Department, the Internal Revenue Service, professional groups, tax practitioners, taxpayers' rights groups, and the public testified on the need for attorneys' fees awards and the types of provisions that would be appropriate in tax cases.

Based on this testimony, the Subcommittee developed and approved legislation, (H.R. 4961), later approved by the Committee on Ways and Means, providing for the award of attorneys' fees in tax litigation. These provisions were eventually enacted in section 292 of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248).

J. DEDUCTIBILITY OF CERTAIN EXPENSES INCURRED BY SELF-EMPLOYED INDIVIDUALS

The Subcommittee on Select Revenue Measures held an investigative hearing to determine what impact, if any, the activities of certain self-employed individuals were having on the tax system. It had come to the attention of the Subcommittee that certain individuals, particularly those engaged in certain kinds of selling activities, were being advised, and were actually attempting to convert nondeductible personal, living and family expenses on the premise that such expenses are ordinary and necessary expenses incurred in carrying on the trade or business of selling. Many of these expenses were only tangentially related to the individual's selling activities, and in some cases, would greatly exceed the income actually derived from the selling activity, thus enabling the taxpayer to shelter other income, like wages.

The Chairman of the Subcommittee requested the staff of the Joint Committee on Taxation to examine and report to the Subcommittee on a selected number of tax returns reflecting this abuse, which were furnished to the Joint Committee by the Internal Revenue Service. The Internal Revenue Service testified that special compliance and research projects to examine this problem had been established.

Major new provisions to address non-compliance among taxpayers were eventually enacted in Title III of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248). Included among these provisions are penalties for promoting abusive tax shelters (section 320) and for substantial understatements of tax liability (section 323).

K. TAX-MOTIVATED CORPORATE MERGERS AND ACQUISITIONS

The Subcommittee on Select Revenue Measures held a public hearing to examine whether present tax law governing corporate mergers and acquisitions encourage non-economic mergers, acquisitions, and reorganizations, and to review legislation to reduce or eliminate any such tax incentives for non-economic corporate takeovers. Testimony

was taken from the Treasury Department, Members of Congress, economists, tax practitioners, and professional groups.

Based on this testimony, the Subcommittee developed and approved legislation, H.R. 6725, to eliminate some of the inequities and anomalies in the rules governing partial liquidations, distributions of appreciated property, and stock purchases which are treated as asset purchases. Provisions similar to H.R. 6725 were finally enacted into law as sections 222-224 of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248).

L. SIMPLIFICATION OF THE TAX LAW: TAX TREATMENT OF SUBCHAPTER S CORPORATIONS

The Subcommittee on Select Revenue Measures held a public hearing to examine legislation which would substantially simplify the rules governing eligibility for treatment as a Subchapter S corporation and the tax treatment of a Subchapter S corporation. This legislation was developed after years of efforts by the staffs of the Joint Committee on Taxation, the Committee on Ways and Means, the Senate Finance Committee, and the Treasury Department, with valuable assistance from outside professional groups. Favorable testimony was received from the Treasury Department, professional groups, tax practitioners, and other members of the public.

Based on this testimony the Subcommittee made several improvements to the introduced legislation, and then approved this legislation, H.R. 6055, which was enacted into law as the Subchapter S Revision Act of 1982 (Public Law 97-354).

M. EMPLOYMENT TAX STATUS OF INDEPENDENT CONTRACTORS

The Subcommittee on Select Revenue Measures continued to monitor the status of independent contractors for income and employment tax purposes. A public hearing was conducted shortly before the expiration of the Congressional moratorium on the issuance of regulations or rulings changing the current treatment of workers for employment tax purposes on June 30, 1982. Testimony was received from the Treasury Department, the Internal Revenue Service, and members of the general public on the appropriate standards for classifying workers for employment tax purposes.

Based on this testimony, the House conferees opposed the provisions creating a statutory safe harbor for independent contractors attached by the Senate Finance Committee to H.R. 4961, the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248). The conferees agreed to delete the safe harbor provisions, while indefinitely extending the moratorium on the issuance of regulations and rulings classifying individuals for purposes of employment taxes, providing new rules treating realtors and direct sellers as statutory non-employees, and reducing employment tax liabilities in certain cases where workers are reclassified as employees (sections 269 and 270 of the Act).

N. LEGISLATIVE REVIEW OF THE ECONOMIC RECOVERY TAX ACT OF 1981
AND OTHER LEGISLATION

The Committee on Ways and Means held a public hearing to review the operation of the Economic Recovery Tax Act of 1981 (Public Law 97-34), the Crude Oil Windfall Profit Tax Act of 1980, (Public Law 96-223) and the Installment Sales Revision Act of 1980 (Public Law 96-471). After careful consideration of the testimony and comments received from the Treasury Department, the Internal Revenue Service, members of the tax bar, and the general public, the Committee approved H.R. 6056, the Technical Corrections Act of 1982, making technical corrections to these acts. These provisions, and additional corrections to more recently-enacted legislation, the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) and the Subchapter S Revision Act of 1982 (Public Law 97-354), were approved by the House and Senate late in the second session of the 97th Congress and are awaiting signature by the President.

O. IRS STAFFING

In the first session of the 97th Congress, the Oversight Subcommittee began a thorough review of the Internal Revenue Service's staffing levels. This review culminated in the Subcommittee's May 11, 1981 hearing on the adequacy of the Administration's FY 1982 Budget proposals relating to IRS staffing. As a result of that hearing, the Subcommittee Majority Members submitted a letter report to the Appropriations Committee's Subcommittee on Treasury, Postal Service and General Government which recommended increased staffing levels for IRS above the Administration's FY 1982 Budget Request. This recommendation was accepted by the Treasury Appropriations Subcommittee as well as the Appropriations Committee and incorporated in the FY 1982 Treasury Appropriations bill.

During the second session of the 97th Congress, the Oversight Subcommittee continued its monitoring of IRS staffing and funding proposals. Such monitoring led to the Committee Chairman and Oversight Subcommittee Chairman's recommendation to the Chairman of the Treasury Appropriation Subcommittee for restoration of the IRS's Taxpayer Services Program in the FY 1983 Budget for the Service. Both the Treasury Appropriations Subcommittee and the Appropriations Committee accepted this recommendation substantially in full, and increased staffing and funding levels above the levels proposed by the Administration in its FY 1983 IRS Budget Request.

P. ABUSIVE TAX SHELTERS

Throughout the 97th Congress, the Subcommittee on Oversight studied and monitored the continuing problems which the Internal Revenue Service has with compliance with federal tax laws. As part of this effort, the Subcommittee held a hearing on September 28, 1982 on abusive tax shelters. In recent years the use of tax shelters to avoid the payment of tax has increased rapidly. The "abusive" tax shelters have claimed tax benefits far beyond those intended by Congress and have involved investment schemes with little or no economic reality.

New penalties designed to curb the growth of abusive shelters were

part of both the Economic Recovery Tax Act of 1981 (ERTA) (Public Law 97-34) and the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) (Public Law 97-248). The staff of the Subcommittee worked with the staff of the full Committee, the Treasury Department, the Internal Revenue Service, the American Bar Association and other interested parties in designing appropriate penalties in this area. Specifically, a penalty for the overvaluation of assets was added in ERTA. In TEFRA, penalties for tax shelter promoters and for substantial understatement of tax were added, as well as provisions allowing injunctions against promoters of abusive shelters and provisions facilitating the audit of partnerships, the most common form of organization of tax shelters.

The Subcommittee hearing examined the nature and extent of the problems posed by abusive tax shelters and the methods used by the Internal Revenue Service, the Justice Department and the Securities and Exchange Commission to stop the proliferation of abusive shelters. The hearing also underscored the need for penalties enacted in both ERTA and TEFRA.

Q. THE SAFE HARBOR LEASING PROVISIONS OF THE ECONOMIC RECOVERY TAX ACT OF 1981

Soon after the passage of the Economic Recovery Tax Act of 1981 (ERTA), numerous press reports indicated that there were problems with the "safe harbor" leasing provisions of the Act. The provisions were encouraging paper transactions which allowed companies with large tax liabilities to buy tax benefits from companies having excess credits and deductions. Not only did this description of the provisions (as the buying and selling of tax benefits) cause concern, but additional questions were raised regarding the accuracy of the original estimates of the revenue loss generated by the leasing provisions.

On December 15, 1981, the Subcommittee on Oversight held a hearing on the safe harbor leasing provisions of ERTA. As a result of questions raised at the hearing, Subcommittee Chairman Rangel introduced an amendment to H.R. 5159, then pending before the full Committee. Mr. Rangel's amendment was adopted and required that information returns be filed with the Internal Revenue Service describing safe harbor leasing transactions so that an accurate evaluation of the operation of the provisions could be made. These reporting requirements became part of Public Law 97-119. Subsequently, significant restrictions on safe harbor leasing were contained in Section 208 *et seq.* of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) enacted as Public Law 97-248.

R. TAXPAYER PRIVACY ISSUES

The Subcommittee on Oversight continued its review of the use of tax returns and related information for non-tax administrative purposes. This review is a continuation of the Subcommittee's ongoing monitoring of the area and a subject of particular interest to Subcommittee members each session.

During the first session of the 97th Congress, the Subcommittee held a hearing on December 15, 1981 to review the operation of Internal

Revenue Code Section 6103(i) since its enactment in 1976, and to consider various proposals for allowing the expanded use of tax information for law enforcement purposes. This hearing was held to consider the propriety of relaxing existing statutory disclosure restrictions and to comply with language contained in the Conference Report on the Economic Recovery Tax Act of 1981 (ERTA) directing the tax-writing committees to consider the appropriateness of any legislative action.

Testimony was received from Administration witnesses representing the Internal Revenue Service and the Department of Justice, Senator Nunn and other interested Members of Congress, former IRS Commissioners, the General Accounting Office, the American Civil Liberties Union and other public interest groups. By and large, the witnesses agreed that any changes to existing statutory rules should be carefully considered to insure that taxpayers' privacy rights are not adversely affected.

During the next session, Subcommittee staff reviewed the hearing testimony and supplemental materials supplied by the hearing witnesses and discussed the issues with proponents and opponents of legislative change. As a result, recommendations for limited revisions to I.R.C. Section 6103 were developed and adopted by the Subcommittee Members. On May 18, 1982 the Subcommittee recommendations were transmitted by letter report to the full Committee for consideration. Simultaneously, negotiations with Senate staff on specific statutory language were completed and agreement on a compromise bill was reached. H.R. 6475 was introduced by Subcommittee Members on May 25, 1982 at which time identical legislation (S. 2565) was introduced in the Senate. In summary, the Subcommittee proposal and the related bills provide for streamlined administrative and judicial handling of disclosure applications and for new disclosure authority in emergency situations. The provisions contained in these bills were enacted on September 13, 1982 as part of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) enacted as Public Law 97-248.

In addition, the Subcommittee monitored the Administration's efforts to use tax information for a range of non-tax administrative purposes such as identification of selective service registration violations, SSI eligibility verifications, and other Federal debt collection actions. The Subcommittee intends to continue to handle issues involving the dissemination of tax information by the IRS and will analyze and hold hearings, next session, on legislative and administrative efforts to expand the use of taxpayer information.

S. COMPLIANCE WITH FEDERAL TAX LAWS

The full Committee held a hearing on May 18, 1982 on H.R. 6300, The Tax Compliance Act of 1982, and related legislative proposals. The bill and related proposals covered a wide range of compliance problems and proposed solutions. Testimony at the hearing addressed issues such as increased civil and criminal penalties for noncompliance, jeopardy assessments, increased withholding and information reporting, substantiation of foreign transactions, changes in the computation

of interest charges for underpayments and overpayments, and simplification of partnership audit procedures.

Many of the provisions contained in H.R. 6300 were later contained in Title III of H.R. 4961, the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), enacted as Public Law 97-248. TEFRA contained numerous provisions designed to increase compliance with Federal tax laws. In summary, TEFRA initiated withholding on interest and dividends and on certain pension income. New and expanded reporting requirements for direct payments such as tips were established. Increased penalties for failure to comply with reporting requirements and penalties for abusive tax shelters, frivolous returns, filing false documents, and substantial understatement of tax were adopted. Numerous provisions were enacted specifically to curb abuses growing out of the difficulties of substantiating foreign transactions. In addition, changes were made in the partnership audit procedures, the provisions governing the issuance of administrative summons and the calculation of interest on underpayments and overpayments. All of which were designed to increase compliance with the Federal tax laws.

T. TAXPAYER SAFEGUARDS

The Subcommittee on Oversight and its staff monitors the Internal Revenue Service's audit, collection and appeals process on an on-going basis. The focus of the Subcommittee's review is to identify new developments involving administration of the tax laws, to handle emerging problem areas as they develop and to assess overall agency performance. Additionally, staff assists taxpayers in problems they encounter with the IRS and works closely with the IRS's Taxpayer Ombudsman and Problem Resolution Program. Both individual tax cases and systemic administrative problems are identified by the Subcommittee for IRS review which the staff monitors to insure timely resolution.

As part of the Subcommittee's review of specific complaints individual taxpayers submitted to the Subcommittee and Members of Congress a public hearing was held on April 26, 1982. The session was designed to provide a public hearing forum for parties to present their complaints about IRS practices. In addition, the IRS appeared as a witness to respond to the complaints presented, to describe its examination, collection and appeals system and to clarify its procedures for addressing taxpayer complaints. Other interested parties testified at the hearing to discuss the IRS's administration of the tax laws and to provide suggestions for administrative and legislative changes. The Subcommittee's hearing record was open for additional public comment and will include the IRS's written response to issues and questions raised at the hearing. The complete printed record of the hearing will be available early next session. Again next session, staff will continue to review information submitted to the Subcommittee regarding alleged IRS misconduct.

In August 1982, the Subcommittee submitted several "taxpayer safeguard" provisions to the House Conferees during action on the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). In summary, the Subcommittee's recommendations provided for certified

mail notice before levy or seizure, an increase in amounts of property exempt from levy, an extended period of time for redemption of property before forced sale, the timely release of tax liens after payment of tax, and an increased measure of damages in any case of wrongful levy against a third party. These provisions were accepted by the Conference Committee and enacted as part of TEFRA as Public Law 97-248. In addition, the IRS was directed to consider the sufficiency and timeliness of information sent to taxpayers regarding their rights during the examination, collections and appeals process. A report from the IRS is expected early next session and will be reviewed by the staff of the Subcommittee on Oversight.

U. TAX-EXEMPT STATUS OF PRIVATE SCHOOLS

Oversight Subcommittee monitoring of the complex and sensitive issue of the tax-exempt status for racially discriminatory private schools continued during the 97th Congress. On January 8, 1982, the Administration announced its decision to reverse the long-standing interpretation of Federal law requiring the denial of tax-exempt status to racially discriminatory private schools and to ask the U.S. Supreme Court to vacate two lower court decisions denying the tax-exempt status to Bob Jones University and Goldsboro Christian Schools.

As a result of that extraordinary development, the full Committee on Ways and Means held a hearing on February 4, 1982, to review the legal justification for, and the legal consequences of, the Administration's decision in view of the substantial number of court decisions on this subject, including decisions of the U.S. Supreme Court interpreting the Constitution, the Internal Revenue Code provisions, existing civil rights laws and other Federal statutes.

In preparation for this hearing, members of the Oversight Subcommittee staff and the Committee Tax Staff conducted a comprehensive review of a massive number of documents, briefs and other legal memoranda relevant to this issue which were requested by the Chairman of the Committee on Ways and Means from the Treasury Department, the Justice Department, and the Internal Revenue Service. The staff prepared extensive briefing materials for use by Members of the Committee in preparation for the hearing.

The Committee heard testimony from the Administration officials directly involved in the decision-making process as well as a panel of legal scholars who had studied the constitutional and legal issues involved, and a panel of former officials of the Internal Revenue Service and the Tax Division of the Department of Justice from past Democratic and Republican administrations. The hearing concluded with testimony from the Commissioner of the Internal Revenue Service regarding the effect of the Administration's decision on tax administration. The weight of evidence developed at the hearing clearly demonstrated that current Federal law requires that the Internal Revenue Service deny tax-exempt status to those private schools engaging in racially discriminatory practices.

Subsequent to the Committee's hearing, the Administration, while maintaining its decision to reverse this long-standing federal policy, requested the U.S. Supreme Court to hear the *Bob Jones* and *Goldsboro* cases and to appoint an *amicus curiae* to represent the position

that federal laws and policies mandate denial of tax-exemption to racially discriminatory private schools. Following the Court's selection of the Honorable William T. Coleman as *amicus*, the Supreme Court heard oral arguments in the fall of 1982.

In addition, the Chairman of the Committee and the Chairman of the Oversight Subcommittee recommended by letter of March 15, 1982, to the Appropriations Committee that, because the issue is pending before the Supreme Court, the Appropriations Committee not include any rider in the FY 1983 Treasury Appropriations bill to prohibit implementation of new policies by IRS with respect to exempt status to racially discriminatory private schools. The Appropriations Committee agreed to this recommendation, which was successfully maintained on the House floor as well.

V. TAX-EXEMPT BOND FINANCING

In the first session of the 97th Congress, the Subcommittee on Oversight held comprehensive public hearings on April 8, 9, 10, 1981 to review tax-exempt "small issue" industrial development bonds as provided for under I.R.C. Section 103. These hearings were held to examine the dramatically increased and varied use of industrial development bonds and to consider the impact this untargeted Code provision has had on Federal revenues and traditional state and local financing efforts. The Congressional Budget Office (CBO) completed its study of the subject, which had been prepared at the Subcommittee's request, and presented its findings as the first hearing witness. Testimony from the Treasury Department, state and municipal bond authorities, firms using the bonds, investment bankers, individual taxpayers and others followed.

As a result of these hearings, the Subcommittee made recommendations to the full Committee for legislative change. The Subcommittee's report which outlined the Members' recommendations, summarized the hearing testimony, and discussed the issues involved was transmitted to the Committee Chairman on July 9, 1981. In September, a bill (H.R. 4420) reflecting the Subcommittee's recommended changes was introduced by Subcommittee Members. In summary, the Subcommittee's proposal would have (1) restricted "small issue" IDBs for commercial projects to economically distressed areas; (2) required state and local authorities which issued bonds to hold hearings, make certain findings, and report to the Treasury Department; and (3) eliminated the availability of "small issue" bonds after December 31, 1983.

In the second session, the Subcommittee continued to monitor developments in the use of tax-exempt bonds for private purposes. Restrictions on the issuance of tax-exempt IDBs were included in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Included in the Act's provisions are information reporting and public approval requirements, restrictions on cost recovery deductions for IDB financed property, and a rule limiting an IDB's maturity date. In the case of "small issue" IDBs, additional restrictions were imposed on certain uses of IDBs, several specific IDB uses were prohibited, and the availability of "small issue" bonds was sunset after December 31, 1986. In addition, research and development expenditures were

excluded from the capital expenditure limit and certain multiple lot bonds could be issued.

The Subcommittee on Oversight also requested that the CBO analyze mortgage bonds issued under the permanent rules of the Mortgage Subsidy Bond Act of 1980. This report, which described the issuance of owner-occupied single family and multi-family rental mortgage bonds, was released in March, 1982. Legislation to alter these Code provisions was also included in TEFRA. For multi-family residential rental projects a separate definition of low and moderate income was provided and the required duration of the 20 percent low or moderate income occupancy period was revised. For owner-occupied single-family homes, the first-time home purchaser and arbitrage limitations were revised, and rules applying to cooperative housing were established.

W. ACCOUNTING TREATMENT OF INVESTMENT TAX CREDIT AND ACCELERATED DEPRECIATION FOR PUBLIC UTILITY RATEMAKING PURPOSES

The Committee held a hearing on June 21, 1982 on the issue of the proper accounting treatment of the investment tax credit and accelerated depreciation for public utility ratemaking purposes. The hearing focused on two major legislative proposals addressing the issue, H.R. 1524 and 6503.

The law at the time of the public hearing provided that the tax benefits from the investment credit and accelerated depreciation on public utility property generally cannot be passed through to consumers immediately in lower utility rates but must be "normalized" for ratemaking purposes and passed through over the useful life of the relevant public utility property.

H.R. 1524 proposed to amend the Internal Revenue Code to make these accounting rules for utility ratemaking purposes more specific. The bill also would exempt utilities from the present requirement that the investment tax credit and accelerated depreciation be normalized with respect to accounting periods that ended prior to March 1, 1980, if the public utility used accounting methods prescribed by order of a State or local government, public service or utility commission. The Committee hearing followed action in the 96th Congress on this issue. Similar legislation (H.R. 6806) was reported by the Committee in the second session of the 96th Congress and passed the House on September 24, 1980.

H.R. 6503 proposed to amend the Internal Revenue Code with respect to the present limitations on the flow-through of the investment tax credit in the case of regulated public utilities. The bill would permit public utility regulatory commissions to account for the tax benefits from the investment credit in a manner more consistent with the principles of cost-of-service ratemaking and normalization accounting procedures. Specifically, the bill will amend Code section 46(f) to make the normalization of the investment tax credit similar to the normalization rules of accelerated depreciation under Code section 167(l). The bill also includes a provision, similar to a provision in H.R. 1524, which would exempt utilities from the present requirement that the investment tax credit and accelerated depreciation be normalized with respect to accounting periods that ended prior to March 1,

1980, if the public utilities used accounting methods prescribed by order of a public service or utility commission of a State or local government.

Based on the testimony received from Administration and public witnesses, and on submissions for the record, the Committee approved H.R. 1524 on September 15, 1982. The bill was reported on September 16, 1982 (H. Rept. No. 97-827), and passed the House as amended, by voice vote under suspension of the rules on September 20, 1982. The substance of H.R. 1524 as passed by the House and as ordered reported (with amendments) from the Committee on Finance was added as an amendment by the Senate to H.R. 6211, the Surface Transportation Assistance Act of 1982. The Senate amendment was agreed to in conference (H. Rep. No. 97-987). The conference report on H.R. 6211 passed the House on December 21, 1982 and the Senate on December 23, 1982.

X. MISCELLANEOUS TAX LEGISLATION

The Subcommittee on Select Revenue Measures held a public hearing on miscellaneous revenue issues on March 16, 1982, and heard testimony from Administration and public witnesses on minor bills that would:

(a) Repeal, equalize or otherwise modify the provisions of the Internal Revenue Code requiring withholding of tax on certain gambling winnings (H.R. 612, 26647, 2981, 4592);

(b) Amend the Code to allow certain imported beer transfers without payment of tax (H.R. 1808);

(c) Amend the Code with respect to the exemption from tax on veterans organizations (H.R. 2597);

(d) Amend the Code with respect to an exemption for conventions held on U.S. flag cruise ships from rules relating to restrictions on foreign conventions (H.R. 3191);

(e) Exempt from the industrial development bond limitations the treatment of certain research or experimental expenditures (H.R. 4444);

(f) Permit certain partial distributions from qualified pension plans to be rolled over (with limitations) to an individual retirement account (H.R. 4473);

(g) Apply rules with respect to the transfer of property to employees subject to certain restrictions provided in the Economic Recovery Tax Act to certain transfers occurring in 1973 (H.R. 4577);

(h) Clarify the tax status of certain amateur athletic organizations (H.R. 4990); and

(i) Exclude certain State judicial retirement systems from the application of rules with respect to ineligible State or local deferred compensation plans (H.R. 5630).

Based on this testimony, the Subcommittee developed and approved H.R. 4577 on September 10, 1981. It was later approved by the Committee, with an amendment, on September 15, 1982 (H. Rept. No. 97-830, Sept. 16, 1982. H.R. 4577 passed the House by voice vote under suspension of the rules on September 22, 1982. The legislation was subsequently ordered reported with amendments by the Committee on Finance on September 28, 1982. It was not enacted into law.

As a result of the record developed at this hearing, later action was taken on several of these bills. Although the Subcommittee took no further legislative action, the substance of the bills H.R. 2597 (veterans organizations), H.R. 4444 (industrial development bonds), H.R. 4990 (amateur athletics) and H.R. 5630 (State judicial retirement plans) were included as Senate amendments to H.R. 4961 and were accepted in conference by the House (H. Rept. No. 97-760). These provisions were enacted into law as parts of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248).

Finally, H.R. 3191, relating to deductibility of expenses for attending conventions on U.S. flag cruise ships, was approved by the Subcommittee on September 10, 1982 and was ordered reported by the Committee on September 15, 1982 (H. Rept. No. 97-828, Sept. 16, 1982). The bill failed of passage under suspension of the rules in the House (219-164) on December 13, 1982, but was passed by the House under a modified closed rule on December 16, 1982 (227-172). A similar bill, S. 2647, was added by the Senate to H.R. 6211, the Surface Transportation Assistance Act of 1982. The House accepted the modified Senate version in conference (H. Rept. No. 97-987). The conference report on H.R. 6211 passed the House on December 21, 1982 and the Senate on December 23, 1982.

The Subcommittee on Select Revenue Measures held another, separate hearing on June 14, 1982 (in addition to its hearing on revisions to Subchapter S) on miscellaneous revenue bills, and heard testimony from Administration and public witnesses on proposals that would:

(a) Liberalize charitable contribution rules in the Internal Revenue Code to encourage donations of computer equipment to elementary and secondary schools (H.R. 5573);

(b) Include as eligible recipients of donated scientific equipment certain tax-exempt organizations (H.R. 4667);

(c) Apply the cash or deferred arrangement plan rules to money purchase plans (H.R. 4948);

(d) Allow conveyors of certain land in Colorado to treat the conveyance as an involuntary conversion where such land was conveyed for the expansion of a military installation (H.R. 5177); and

(e) To clarify certain rules with respect to periodic payments for damages received in a personal injury settlement (H.R. 5470).

Based on testimony received at the public hearing, the Subcommittee developed and approved three of these bills. H.R. 5573 (computer equipment donations) was reported out of Subcommittee on September 10, 1982. It was reported by the Committee on September 17, 1982 (H. Rept. No. 97-836) and passed the House on a record vote under suspension of the rules on September 22, 1982. H.R. 5573 (computer equipment donations) was reported out of Subcommittee on September 17, 1982 (H. Rept. No. 97-836) and passed the House on a record vote under suspension of the rules on September 22, 1982. H.R. 5573 was reported by the Committee on Finance on October 1, 1982 (S. Rept. No. 97-647) but was not taken up in the Senate. H.R. 5573 was not enacted into law.

H.R. 4948 also was reported out of the Subcommittee on September 10, 1982. It was reported by the Committee with an amendment on

September 16, 1982 (H Rept. No. 97-831) and passed the House by voice vote under suspension of the rules on September 20, 1982. In the Senate, the Committee on Finance added the provisions of H.R. 4948 to H.R. 4577, a House-passed bill involving restricted property transfers. The Committee on Finance ordered H.R. 4577 reported but the legislation was not taken up by the Senate. H.R. 4577 (including the provision similar to H.R. 4948) was not enacted into law.

H.R. 5470 (periodic payments of damages) was developed and approved by the Subcommittee in the September 10, 1982 markup. The bill was reported by the Committee with an amendment on September 16, 1982 (H. Rept. No. 97-832). It passed the House by voice vote under suspension of the rules on September 20, 1982. The Committee on Finance reported H.R. 5470 with an amendment in the nature of a substitute on October 1, 1982 (S. Rept. No. 97-646). The substitute passed the Senate on October 1, 1982. The managers on the part of the House and the Senate filed a conference report on H.R. 5470 on December 21, 1982 (H. Rept. No. 97-984) and on that same day both chambers passed the conference report.

LEGISLATIVE REVIEW OF THE ADMINISTRATION'S ECONOMIC PROGRAM AND BUDGET PROPOSALS

In early 1981 and 1982, the Committee held extensive hearings over a period of several months on the President's Economic Program and the Administration's Fiscal Year 1982 and 1983 Budget proposals. 193 witnesses were heard in 1981 and 112 in 1982.

In February 1981, the Administration introduced its revised budget for fiscal year 1982. The Administration proposed specified reductions in outlays for a wide variety of government programs, totalling \$34.8 billion in fiscal year 1982. Additional, unspecified outlay reductions of \$6.7 billion in fiscal year 1982 were proposed. About one-fifth of the outlay reductions specified in President Reagan's budget message were within the jurisdiction of the Committee on Ways and Means.

The Administration proposed sequenced reductions in individual income tax rates of approximately 5 percent in 1981, 10 percent in 1982 and 1983, and 5 percent in 1984. Thus, by 1984, rates would be approximately 30 percent less than then current law. In addition, the tax proposals in the fiscal year 1982 revised budget included replacing the present rules for depreciating personal property with a new mandatory system of accelerated cost recovery over three recovery periods. The proposal contemplated corresponding changes in the investment tax credit. Finally, the Administration proposed increased excise taxes in inland waterway fuel and airport and airway charges. User fees would be imposed on owners of boats and yachts to cover the costs of services provided by the Coast Guard.

A great many of the Administration's outlay and tax legislative recommendations were enacted into law in the first session of the 97th Congress. The Committee ordered reported H.R. 3850 (H. Rept. No. 97-143, Part 1) to make expenditure reductions in accordance with the budget reconciliation process. The recommendations of the Committee were incorporated in title XV of H.R. 3982 (H. Rept. No. 97-158, Vol. III), reported to the Committee on the Budget. A substitute to the Budget Committee bill was adopted on the House Floor and was en-

acted as the Omnibus Reconciliation Act of 1981 (Public Law 97-35, 95 Stat. 357) on August 13, 1981.

Similarly, the Committee reported out H.R. 4242, the Tax Incentive Act of 1981 on July 24, 1982 (H. Rept. No. 97-201). On July 29, 1982, the Administration's substitute in the nature of an amendment to H.R. 4242 passed the House. H.R. 4242 passed the Senate on July 31, 1981 and was enacted on August 13, 1981 (Public Law 97-34, 95 Stat. 173).

In February 1982, the President submitted the budget for fiscal year 1983. The Administration budget recommended a variety of tax legislative and regulatory changes estimated to increase receipts by \$7.2 billion in 1983, and \$13.5 billion in 1984 and 1985. Also proposed were numerous outlay reductions in entitlement and discretionary programs, user fee increases and elimination of waste, fraud and abuse, reducing the Federal deficit by \$48.7 billion in fiscal year 1983, \$70.6 billion in 1984 and \$85.8 billion in 1985.

The Committee held four months of hearings on these budget recommendations in early 1982. The tax changes recommended by the Administration included income tax, enforcement, excise tax, employment tax and user fee proposals. The bulk of the outlay reductions put forth by the Administration consisted of changes in the Medicare program. In July, the Senate amended H.R. 4961, a House-passed miscellaneous revenue measure, including many of the proposed tax and outlay changes. A conference report on H.R. 4961 was filed on August 17, 1982 (H. Rept. No. 97-760) and passed the House and Senate on August 18 and 19, 1982, respectively. The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248, 96 Stat. 325) included both tax increases and outlay reductions reducing the Federal deficit by approximately \$21.6 billion in fiscal year 1983.

As part of its legislative review of the Administration's economic program and budget cuts, the Committee held five days of regional hearings across the country. The hearings, developed by the Oversight Subcommittee staff with the assistance of staff of the other Subcommittees, were held in Baltimore, Maryland (November 17, 1981); Indianapolis, Indiana (December 7, 1981); Detroit, Michigan (December 8, 1981); Sacramento, California (January 18, 1982); and Seattle, Washington (January 19, 1982). The hearings examined the cumulative impact of the Administration's current and proposed budgetary cuts on:

The lives and well-being of individual persons, with particular attention devoted to work incentives, access to needed health and supportive services, employment opportunities, and availability of food and financial assistance;

The stability and adequacy of programs established by the Congress over the past two decades to sustain and enhance the lives of the most vulnerable members of our society—the poor, the elderly, the very young, the handicapped, the disabled, and the disadvantaged;

The fiscal and administrative capacity of state and local governments, under the Administration's "New Federalism" mandate, to manage the full range of programs and responsibilities that had been thrust upon them.

The Committee also examined whether the states had the financial or administrative resources to absorb further federal funding reductions or additional responsibilities.

At each hearing, the Committee received testimony from representatives of state and local governments, the private sector, and beneficiaries of various social programs. The state and local government officials, including governors, mayors, administrators of various social service departments, county executives, and state legislators, discussed: the true-to-life impact of the Administration's budget cuts on people in their communities; whether the state or local government could pick up those programs for which federal funding had been reduced or eliminated; their ability to manage the massive changes that occurred simultaneously; and their overall capacity to absorb any further reductions. Representatives of the private sector, including businesses, labor unions, and church, philanthropic and other charitable organizations, addressed whether private voluntary efforts could fully compensate for the substantial gaps left by federal program cuts. Finally, the Committee heard current and former beneficiaries of a variety of federal social programs, such as Aid to Families with Dependent Children (AFDC), Title XX Social Services, CETA, Unemployment Compensation and Medicare/Medicaid, describe what further reductions would mean to them and their families.

In addition, during the series of regional hearings, the Committee visited community-based, federally supported facilities which provide essential health and social services, primary as well as supportive, to the disadvantaged and distressed in their communities. The Committee toured the facilities during their hours of operation seeing the variety of assistance provided, and speaking with the providers of services as well as the recipients. These visits—for example, to the John F. Kennedy Institute for Handicapped Children in Baltimore, the Center Township Trustee Office and the Near Eastside Multi-Service Center, Inc. in Indianapolis, and the Camellia City Center and the Sacramento Childrens Home in Sacramento—were designed to give the Members of the Committee the opportunity to see first-hand the quality and range of services provided, and to learn how reduced federal funding of their programs affect the continued ability to adequately assist those dependent upon federally supported services.

On March 3, 1982, during consideration of the FY 1983 budget cuts, the Subcommittee on Oversight held a joint hearing with the Subcommittee on Health and Environment of the Committee on Energy and Commerce to ascertain the impact of the proposed budget cuts on programs affecting children. The Subcommittees issued a background print (WMCP: 97-30) describing the impact of the previously enacted FY 1982 budget cuts and assessing the impact of the proposed FY 1983 cuts in five general areas: (1) health services for mothers and children; (2) child nutrition programs; (3) Aid to Families with Dependent Children (AFDC); (4) day care and other child care programs; and (5) child welfare, foster care and adoption programs. Witnesses at the hearing included representatives from local and state agencies administering these programs, representatives of national organizations with a special concern for children, such as the Child Welfare League and Children's Defense Fund, pediatricians, neonatologists, beneficiaries of the programs, and concerned citizens. All of the witnesses testified as to how the proposed budget cuts in the five general areas would affect the welfare of children in this country, and their testimony aided Members in consideration of the proposed FY 1983 budget cuts.

LEGISLATIVE REVIEW OF TRUST FUNDS

A. HIGHWAY TRUST FUND

The full Committee on Ways and Means conducted a public hearing on December 1, 1982 on the financing needs of the Highway Trust Fund for fiscal years 1983 through 1986. The Committee received testimony from the Administration, members of the Committee on Public Works and invited public witnesses.

Under the law at the time of the public hearing, the Highway Trust Fund and its related excise taxes were established through September 30, 1984. On May 12, 1982, the House Committee on Public Works and Transportation ordered reported H.R. 6211, with amendments, which authorizes increased spending for highway programs for fiscal years 1983 through 1986. As an interim measure, the House Committee on Public Works and Transportation also reported a committee amendment providing authorizations for fiscal year 1983 only. The Committee on Ways and Means reported a bill, H.R. 7092, to extend the Highway Trust Fund and its taxes for one year, through September 30, 1985, to accompany the fiscal year 1983 authorization bill. Both of these measures were at that time pending before the Committee on Rules.

Following its legislative actions in September 1982 when it approved H.R. 7092, the Committee continued its oversight into the distributional effect of the tax burden on highway users. In providing these tax changes and extensions for the Highway Trust Fund, the Committee shifted a larger share of the tax burden to the heaviest trucks on the highways and reduced the share paid by lighter trucks. The shifts of burden were considered consistent with the highway cost allocation study submitted to Congress by the Department of Transportation in May, 1982.

As a result of its hearings, the Committee was convinced that substantial improvements are needed to the nation's highways, bridges and mass transit systems, and that additional highway user excise taxes should be raised to finance expenditures for this purpose. It was also found that the Highway Trust Fund was a successful government program that should be extended to fund the expenditures contemplated by the public works title of H.R. 6211. Further, the Committee also believes that the statutory authority for the Trust Fund should be transferred to the Internal Revenue Code, and that the anti-deficit provisions of the "Byrd amendment" need modification and clarification.

Based on the testimony received from other committees, the Administration and public witnesses, the Committee approved on December 3, 1982, a revenue title (H.R. 7368) to the Surface Transportation Assistance Act of 1982, H.R. 6211. H.R. 6211 was reported from the Committee on Public Works and Transportation on May 17, 1982 (H. Rept. No. 97-555). The legislation was expected to increase budget receipts by \$1.7 billion in fiscal year 1983 and \$3.9 to \$4.3 billion annually for 1984-88. H.R. 6211 passed the House on December 7, 1982 and the Senate on December 20, 1982. A conference report on the bill was filed in the House and Senate on December 21, 1982 (H. Rept. No. 97-987). It passed the House the same day; the Senate approved the conference report on December 22, 1982.

B. AIRPORT AND AIRWAY TRUST FUND

On October 14, 1981 the full Committee on Ways and Means held a hearing on legislative proposals relating to the aviation excise taxes and the Airport and Airway Trust Fund. Representatives of the Department of Transportation, Federal Aviation Administration, Department of Treasury, Members of Congress, representatives of the airline industry and other interested parties testified regarding various legislative proposals.

Although the House had acted on legislation in the second session of the 96th Congress to extend the Trust Fund and its taxes (Title II of H.R. 6721, the Airport and Airway Revenue Act of 1980), final Congressional action was not taken prior to adjournment of the 96th Congress. Thus, on September 30, 1980, many of the aviation excise taxes expired or were reduced and the deposit of aviation tax revenues into the Airport and Airway Trust Fund was terminated.

Testimony at the October 14, 1981 hearing focused upon the appropriate mix and level of aviation taxes and revenue collections, given the present Trust Fund balance and the projected spending levels for aviation programs; the relative tax burdens to be placed on various aspects of the industry; the extension period for the Trust Fund and its taxes; and, Trust Fund provisions relating to approved expenditures. Subsequently, on October 21, 1981, Committee Chairman Rostenkowski and Mr. Conable introduced H.R. 4800, the Airport and Airway Revenue Act of 1982, which was favorably reported, with amendment, by the Committee on May 6, 1982.

Thereafter, during passage of H.R. 4961, the Tax Equity and Fiscal Responsibility Act of 1982, some of the provisions contained in H.R. 4800 were adopted by the conferees and became enacted as part of Public Law 97-248. In summary, the following changes were made: (1) the air passenger ticket tax was raised from 5 percent to 8 percent and certain changes were made in its application; (2) the air freight waybill tax was reimposed at 5 percent; (3) the international departure ticket tax was reimposed at a \$3.00 per passenger rate; (4) the aircraft gasoline fuels tax was increased to 12¢ a gallon; (5) the tax on non-gasoline fuels for noncommercial (general) aviation was increased to 14¢ per gallon; and (6) the tax rates on aviation tires and tubes were continued at prior law levels. Helicopters engaged in hard mineral resource and timber operation are exempt from the fuel and air passenger ticket taxes. The new law inserts the Airport and Airway Trust Fund provisions into the Internal Revenue Code. The authority to make expenditures from the Airport and Airway Trust Fund expires after September 30, 1987 and the aviation excise taxes will terminate after December 31, 1987.

C. BLACK LUNG DISABILITY TRUST FUND

The Subcommittee on Oversight held two hearings on the Black Lung Disability Trust Fund, one on July 27, 1981 and one on September 28, 1981. Testimony at these hearings described the serious problems presented by the growing insolvency of the Trust Fund. Various solutions to the insolvency of the fund were presented by interested parties, such as the United Mine Workers, black lung associations, representatives of the insurance and coal industries, General Account-

ing Office, Department of Energy, and the Department of Labor. On December 2, 1981, the Subcommittee issued a report (WMCP:97-22) containing recommendations to the full Committee for solutions to the insolvency problem.

The Subcommittee recommended increasing the excise tax on coal from \$.25 to \$.50 per ton of surfaced-mined coal and from \$.50 to \$1.00 per ton of underground-mined coal (with a limitation of the tax to 4 percent of the per ton sales price) in order to obtain more revenue for the Trust Fund. The Subcommittee also proposed increasing the interest rate which responsible mine operators paid on interim benefits advanced by the Trust Fund. Finally, the Subcommittee recommended that the Committee give serious consideration to proposals that would transfer to the Trust Fund the liability for claims previously denied and subsequently reopened and approved under the standards of the 1978 black lung amendments.

On December 10, 1981 a bill (H.R. 5159) containing the recommendations of the Subcommittee was introduced by the full Committee Chairman, Mr. Rostenkowski, and on December 15, 1981 it passed the House. The Senate approved the revenue portions of the bill and added a new title to the bill containing changes in the black lung benefits program. The House agreed to the Senate amendments, and on December 29, 1981 the provisions became Public Law 97-119, the Black Lung Benefits Revenue Act of 1981.

LEGISLATIVE REVIEW IN PUBLIC DEBT MATTERS

During the 97th Congress, the Committee on Ways and Means conducted several hearings on the public debt limit and management, beginning February 3, 1981. On that date the Committee considered and reported H.R. 1553, introduced by Chairman Rostenkowski and Mr. Conable, to provide for a temporary increase in the public debt limit. The extension passed the House on February 5, 1981 and the Senate February 6. It was approved February 7, 1981—Public Law 97-2.

Administration proposals relating to the management of the public debt were examined in a committee hearing on April 27, 1982. The Administration had proposed that limitations on savings bond interest rates be removed to link the interest rates on savings bonds to market rates of interest, and that the interest rate limitation be repealed.

Once again, on May 25, 1982, the Committee on Ways and Means held a hearing on the Administration's proposal for another increase in the public debt limit. The limit on the public debt was \$1,079.8 billion through September 30, 1982 at which time the debt ceiling would revert to its permanent level of \$400 billion. Preliminary, unofficial discussions with Administration officials indicated that the prevailing debt ceiling would be reached prior to the expiration date of September 30, 1982. Subsequently, on June 16, 1982 the Committee on Ways and Means favorably reported H.R. 6595, increasing the public debt limit to \$1,126.9 billion through August 12, 1982. The bill also included the Administration's two debt management proposals which were the subject of the Committee's April 27, 1982 hearing.

The Committee's activity on matters relating to the public debt concluded in the 97th Congress with the House passage on June 23, 1982, of H.J. Res. 520 to provide for a temporary increase in the public

debt limit of \$890.2 billion to cover the period from October 1, 1982 to September 30, 1983.

LEGISLATIVE REVIEW OF PENSION MATTERS

A. EMPLOYEE RETIREMENT INCOME SECURITY ACT (ERISA)

A public hearing was conducted on H.R. 6410, legislation which would make significant changes in the tax treatment of employee benefit plans. Because the ultimate effect of the legislation would be the mandatory inclusion of a broad class of employees in pension and statutory fringe benefit plans in order to qualify for favorable tax treatment, the Committee took testimony from many public witnesses and major interest groups, as well as the Treasury Department. In addition, an extensive record was developed.

Major pension reform, including some of the provisions of H.R. 6410, were finally enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (sections 235-250 of Public Law 97-248).

Continuing its efforts begun in 1977, the Subcommittee on Oversight vigorously reviewed and monitored the Government's efforts to enforce reform of the Teamsters' Central States Pension Fund ("the Fund"), pursuant to the Employee Retirement Income Security Act ("ERISA"). On July 26, 1982, the Subcommittee held a hearing to examine the progress of the Government's reform of the Fund and the adequacy of enforcement remedies currently available under ERISA. Of particular concern to the Subcommittee was the rapidly approaching expiration date, on October 3, 1982, of the Fund's agreement with qualified independent asset managers, the continuation of which the Government maintained was essential to guarding against renewed misuse of the Fund. The Subcommittee explored the status of settlement negotiations between the Fund and the Government to reach agreement on a court-enforceable consent decree. In addition, the hearing was held in direct response to the request of the Departments of the Treasury and Labor that the Committee consider and take prompt action on legislation to provide an additional remedy, besides revocation of an IRS favorable determination letter and the attendant tax-exempt status, under ERISA to better and more effectively safeguard plan assets. The Departments cited the Fund's case as clearly illustrative of the need for such legislation and urged its enactment to assure that the Fund's assets continue to be managed by qualified independent asset managers.

As a result of the evidence presented at the hearing, several Subcommittee Members, by request of the Administration, introduced H.R. 7094 and H.R. 7095, to provide the additional ERISA enforcement mechanisms. H.R. 7094, favorably reported by the Committee, passed the House on September 20, 1982, and was favorably reported by the Senate Committee on Finance on October 3, 1982. H.R. 7095 was referred to the Committee on Education and Labor. On September 21, 1982, the Fund and the Department of Labor entered into a court-enforceable consent decree, which provides for the continuation of qualified independent asset management, as well as other major protections and safeguards for the Fund.

B. RAILROAD RETIREMENT ACCOUNT

The Committee on Ways and Means conducted a public hearing on issues relating to the financing of the Railroad Retirement Account on July 13, 1981. The railroad industry retirement system had an acute short-term financial problem that needed timely corrective legislation to assure sound financing of benefits by the railroad sector. The Railroad Retirement Account deficit was at that time about \$600 million and was expected to increase. It was estimated that under then present law the railroad retirement system would run into cash flow problems and be unable to pay benefits on a timely basis, most probably in early 1982.

Recognizing this need, Congress had recently enacted H.R. 8195 (Public Law 96-582), which, among other things, requested that the representatives of railroad management and labor submit to the Congress by March 1, 1981, a proposed recommendation for further restructuring of the railroad retirement system in order to insure the long-range soundness of the program.

The railroad retirement system is a two-tier benefit program where the tier-I component is essentially equivalent to social security (in benefits and financing), and the tier-II component is an employer financed industry pension. At the time of the hearing, the industry tier-II component was the primary factor causing the system's financial problems. The employer contribution (equal to 9.5 percent of covered payroll) was falling short of tier-II benefit obligations by more than \$300 million annually.

Responsibility for all revenue measures pertaining to the Railroad Retirement Account is within the jurisdiction of the Committee on Ways and Means. The Committee on Energy and Commerce has jurisdiction over those provisions of law relating to benefit entitlements and administration of the program. The Chairman of the Committee on Energy and Commerce had requested the Committee on Ways and Means to act in an expeditious manner in considering legislative proposals to make adjustments in tier-II railroad retirement taxes and to provide for limited borrowing authority by the Railroad Retirement Account against amounts to be transferred under the social security financial interchange. The purpose of the hearing was to receive comments from Administration witnesses, representatives of railroad labor and management and interested members of the general public.

Based on the testimony of witnesses at the hearing and on written submissions for the record, the Committee included a provision in H.R. 4242 (H. Rept. No. 97-201), reported on July 24, 1981, to increase the rate of tax on railroad employers under section 3221 of the Internal Revenue Code from 9.15 to 11.75 percent of taxable compensation. Further, the provision approved by the Committee imposed a new tax, in addition to other taxes under the Railroad Retirement Tax Act, of 2.0 percent of taxable compensation of railroad employees. These changes were expected to increase Railroad Retirement account revenues by \$0.5 billion annually in fiscal year 1982. An identical provision was included in the amendment to the Committee bill which passed the House floor on July 29, 1982, and subsequently was enacted as part of the Economic Recovery Tax Act of 1981 (Public Law 97-34).

SOCIAL SECURITY

A. DISABILITY PROGRAM

1. *Social Security Appeals and Case Review Process.*—In October of 1981, the Subcommittee on Social Security held two days of hearings on the appeals and case review process. A backlog of cases at the Administrative Law Judge level was building, primarily because of the accelerated review of disability cases begun by the Administration in March of 1981. A wide disparity in the adjudication of disability cases between the different administrative levels and varying court interpretations of the law were examined as were provisions in H.R. 3207 requiring the use of uniform standards, which had been adopted earlier by the Subcommittee, and in H.R. 3865, which would establish a Social Security Court. The need for additional hearings examiners and for better procedures in hiring Administrative Law Judges (ALJ) were examined and an amendment which would facilitate staff attorneys using their experience to qualify for ALJ posts was adopted in Subcommittee as a part of H.R. 5700, but not reported from the full Committee. The pre-effectuation and own-motion reviews were examined and amendments affecting these areas were included in H.R. 5700 and reported from Committee in an amended form in H.R. 6181. Finally, the Subcommittee examined the provisions setting fees for legal representation in appeals.

2. *Continuing Disability Investigation.*—In January of 1982, staff conducted field investigations of problems arising from the Administration's accelerated review of disability cases. These investigations, combined with earlier investigations and hearings on the social security appeals and case reviews, resulted in the introduction of H.R. 5700, which was reported from Ways and Means as H.R. 6181 on May 26, 1982.

3. *Quality Assurance.*—Quality assurance ratings are one of the most important factors in determining whether a State is capable of administering the disability program. In mid-1972, the Social Security Administration abandoned 100 percent review of State agency decisions and substituted a sample review of cases which amounted to 5 percent of cases nationwide. This measure was taken in spite of growing numbers of questioned disability allowances in 1971 and 1972. Congress responded by placing an amendment in the 1980 Disability Amendments (Public Law 96-265) which would require an increasing level of Federal review of State allowances.

To try to obtain a better understanding of the effects of this legislation on State agencies and on quality assurance in the social security disability determination process generally, the Chairman of the Social Security Subcommittee addressed a letter to the administrators of the State agencies asking for their help in completing a questionnaire. Specifically, the Subcommittee wanted to get an informed opinion on how well the accuracy reviews measure the quality of the operation of the State agencies.

The Subcommittee staff followed up with an analytical report on the survey. The State agencies generally concluded that the quality assurance system does measure the effectiveness of the disability determination unit in a satisfactory manner.

In hearings on December 8, 1982, the Subcommittee continued to monitor the quality assurance program.

4. *Volume Providers of Medical Examinations for Social Security Disability Cases.*—In 1978 and 1979, the Social Security Subcommittee and the General Accounting Office were involved in evaluating the consultative examination process. The percentage of cases where a consultative exam was purchased had varied markedly over the years, and cost benefit studies on consultative examinations drew apparently conflicting conclusions. As adequate medical evidence appears to be one of the keys to controlling the disability insurance program, the Social Security Subcommittee staff felt the issue should be pursued in the 97th Congress.

In August 1981, staffs of the Subcommittees on Oversight and Social Security initiated an intensive study of this area focusing on specific allegations of irregularities in medical examinations purchased by State agencies. The allegations related primarily to the quality of medical examinations by certain volume "providers" and the integrity of the consultative medical exam process more generally.

The Oversight and Social Security Subcommittees followed with a hearing on September 18, 1981 with testimony requested from Social Security Administration Commissioner John Svahn and the administrators of disability programs in two of the states involved, Tennessee and Pennsylvania. The issues at this first hearing dealt with the validity of purchased medical examinations, the supervision of the consultative exam process, and the availability of resources.

A second hearing was held by these two Subcommittees on March 11, 1982 so that individuals who had questioned the operation of "volume providers" would be given the opportunity to testify. The nature of the operation of volume providers, their accountability, and the quality of the medical evidence resulting from these examinations was reviewed.

Amendments addressing the fee schedules for consultative examinations and establishing a medical advisory board to, among other things, suggest guidelines for volume providers were included in H.R. 5700 but not passed by the Subcommittee.

In testimony before the Subcommittee on Social Security, Wednesday, December 8, 1982, SSA outlined general administrative action the agency has taken to improve the quality of consultative examinations.

B. OFFICE SPACE

In recent years, the Social Security Administration (SSA) had been generally unsuccessful in attempts to get adequate office space through the General Services Administration (GSA). These requests in all instances were followed by responses from GSA promising new initiatives but rejecting proposals for various types of delegation of leasing authority to SSA or authority to undertake minor space alteration or maintenance functions.

This has resulted in the legislative branch playing an increasing role in attempting to deal with the situation. In 1979 and 1980, the Oversight and Social Security Subcommittees requested a GAO study of the problem and held public hearings. This was followed by the Appropriation Committee directing that leasing authority be given to the Social Security Administration; however, the Appropriation Committee worked out a compromise short of delegating leasing au-

thority to the Social Security Administration. Basically, it dealt with the formation of joint "Space Acquisition Teams" comprised of GSA, HHS, and SSA employees.

For Fiscal Year 1982, these teams were established in every region and out of 400 back-logged space requests only 41 remained at the end of this period. At the same time, the teams managed to handle most current requests. In the Social Security Subcommittee hearing on the Administration of the Social Security Program last December, SSA Commissioner John A. Svahn testified this program had worked well. A final report will be issued in January of 1983.

C. ANNUAL WAGE REPORTING

The Social Security Subcommittee has a long-standing interest in the delays in crediting wages to social security earnings records of individuals. On December 11, 1981 in a Subcommittee hearing on the Administration of the Social Security Program, Commissioner John A. Svahn was asked to provide a status report on the posting of earnings. Of particular interest were those for the years 1978 and 1979. In April 1982, the Commissioner's report stated that the wage posting for the years 1978 and 1979 was "virtually" complete with an estimated 1 million items remaining for 1978 and 1.3 million for 1979. After the issuance of this report, the Subcommittee continued to receive indications that the wage crediting for these years remained a problem.

On September 23, 1982, the Subcommittee followed up with a hearing dealing with annual wage reporting and other oversight items. These hearings focused on three areas of the social security program directly affected by the delay in posting earnings. The areas affected are: benefit recomputation; enforcement of the retirement test and overpayments; and the monitoring of substantial gainful activity on the part of social security disability beneficiaries. Witnesses included the Social Security Administration and the Office of the Inspector General. The General Accounting Office is also reviewing this situation. It was learned that the Social Security Administration has made progress in their backlog and the Subcommittee indicated that it would continue to review the status of wage reporting.

D. SOCIAL SECURITY ADMINISTRATION INFORMATION PROCESSING SYSTEM

The staff of the Subcommittee on Social Security continued its activities from previous Congresses of keeping abreast with developments relating to the Social Security Administration information processing system.

Prior efforts to redesign the Social Security Administration processing system had been terminated in 1979 and other efforts appeared to have fallen victim to the last Social Security Administration reorganization. In the 96th Congress, the staff of the Subcommittee met several times with the Social Security Administration and General Accounting Office personnel in order to monitor the systems move to a new building and to access progress on the system's capability of meeting current and future needs of the social security program.

In May 1981, a staff print outlined the history of the problem and analyzing both the system's and Social Security shortcomings. Also in May of 1981, Social Security Administration Commissioner John A. Svahn appeared before the Social Security and Oversight Subcommittees and stated that he hoped to develop a plan to improve SSA's computer system within six months. In a December 11, 1981 hearing on the Administration of the Social Security Program, Commissioner Svahn indicated that he did not yet have a plan to present to the Subcommittee. However, on March 2, 1982, Commissioner Svahn released his report on a "Systems Modernization Plan" for the Social Security Administration. It is to be placed in operation over a five-year period, and the Subcommittee will continue to review the progress of this plan in the next Congress.

E. STUDENT BENEFIT

In the wake of past Oversight and General Accounting Office activity, as well as interest on the part of the past three Administrations, Congress voted in the 1981 Budget Reconciliation Act to phase out the student benefit of the social security program (P.L. 97-35).

The Social Security Subcommittee subsequently received reports that there were some discrepancies in the implementation of the phase out and that much of the problem centered around SSA's method of notification. On February 5, 1982, the Subcommittee held a hearing to investigate the implementation of the phase out. The Subcommittee made clear its intent that SSA make every effort to accurately and expeditiously notify beneficiaries of benefit changes.

F. INVESTMENT OF TRUST FUNDS

The policies governing the investment of the social security trust funds have been criticized as failing to maximize interest income. As a result of these criticisms, the Subcommittee staff prepared a document (WMCP 97-19) outlining the history of trust fund investment policies and practices, current law, and the major issues and options in this area.

The Subcommittee held one day of hearings on this issue (October 16, 1981) during which testimony was heard from representatives of the Secretary of the Treasury and the Commissioner of the Social Security Administration. As a result of this hearing the Chairman of the Social Security Subcommittee introduced legislation (H.R. 7326) which would provide greater flexibility in investing trust fund assets.

G. DEBT COLLECTION

The Social Security Administration began a vigorous campaign in 1981 to collect overpayments from beneficiaries; this campaign was part of a Federal government-wide effort under the leadership of the Office of Management and Budget to accelerate such collection efforts. SSA has traditionally collected such overpaid amounts through withholding partial payments from the beneficiary's check according to a repayment schedule; collecting overpayments from those who are no longer beneficiaries is more difficult, and pursuit was usually done through letters requesting repayment.

SSA's campaign to step up collections raised several questions concerning the manner in which beneficiaries were being treated by SSA personnel. The Subcommittee received testimony from the Commissioner of Social Security as well as several public interest witnesses concerning debt collection practices. The Subcommittee staff is continuing to monitor the activities of SSA in this area, with a view toward possible legislation in the 98th Congress if deemed necessary.

H. USE OF SOCIAL SECURITY NUMBERS

The September 23rd hearing also focused on the use of the social security number as an identifier, in light of SSA's public announcement that they planned to issue social security cards on tamper-resistant paper, and in view of legislative activity on immigration which required the Administration to develop a worker identification system within three years. Testimony was received from GAO on the administrative infeasibility of making the social security card tamper-proof, and from ACLU on the civil liberties implications of developing the social security number into a universal identifier, as well as from the Commissioner, who stated that SSA would not issue cards on tamper-resistant stock without giving the Committee on Ways and Means prior notice and consideration of such a plan.

HEALTH

During the 97th Congress the Subcommittee on Health engaged in several oversight activities with respect to the medicare program. The Subcommittee examined problems concerning the administration of the medicare program, difficulties associated with the medicare skilled nursing facility benefit and issues related to hospice coverage under the medicare program. In addition the Subcommittee held briefings and meetings to discuss the implementation of some legislation, specifically, amendments regarding the medicare end stage renal disease program, the Professional Standards Review Organization program and the medicare secondary payor provision for the working aged.

Health care costs continue to rise at a rate more rapid than the general inflation rate. A number of proposals have been introduced designed to reduce health care cost inflation by promoting competition in the health care field. The Subcommittee held a series of hearings to examine these proposals. In addition the Subcommittee examined issues related to catastrophic health insurance.

A. ADMINISTRATION OF THE MEDICARE PROGRAM

The Subcommittee examined problems related to the administration of the medicare program. The Subcommittee is generally concerned that insufficient attention is given to the administration of the medicare program. The administrative budget of the medicare program, as a result of Administration policy, has for several years remained unchanged with no significant increase in funding to take account of inflation or work load increases. The Subcommittee is concerned that this has led to delays in claims processing and increased levels of payment error. In addition, the decline in provider audits and medical

review activities necessitated by restricted funding may have lead to unnecessarily high outlays for the medicare program.

As a result of this concern, and the concern of other Committees, a provision was included in Public Law 97-248, which requires that for each of fiscal years 1983, 1984 and 1985, an additional \$45 million be provided to be spent specifically for provider cost audits and medical review activities.

B. COMPETITIVE CONTRACTING—MEDICARE PROGRAM

In 1972, the Congress authorized the Secretary of Health and Human Services to conduct experiments with competitive fixed-price contracting for carriers and intermediaries as one possible alternative to the cost reimbursement type of contracting required by Title XVIII of the Social Security Act. Under this authority, six experimental contracts have been entered into since 1972 and a considerable body of experience has been acquired. Based on this experience, the Secretary requested legislative authority to award future Medicare contracts on a competitive basis at his discretion.

At the request of the Health Subcommittee, the Oversight Subcommittee, in collaboration with GAO, reviewed Medicare's experience to date with competitive fixed-price contracting, as well as the experience of other Federal health programs which have employed similar approaches to contracting. The objective in this effort was to codify the data and results of this cumulative experience and provide an analysis for the use of the Health Subcommittee during its legislative deliberations on proposals to amend the Medicare contracting process. In the course of this review, the Oversight Subcommittee carefully examined all the relevant reports on this issue prepared by the General Accounting Office, the Health Care Financing Administration and the President's Management Improvement Council.

The report, which was transmitted to the Health Subcommittee on June 15, 1982, concluded that there were different circumstances associated with each experiment that weighed heavily on the results. Although much can be learned from these experiments, they are inconclusive as to whether the broad application of competitive fixed-price contracting in Medicare can produce administrative cost savings without unacceptable negative effects on program payments and services. Consequently, the report recommended that the Secretary's request be held in abeyance until such time as the Health Care Financing Administration completes its own detailed evaluation of the experimental contracts and is prepared to demonstrate that significant improvements in program management and costs can be achieved through the use of competitive fixed-price contracting.

C. SKILLED NURSING FACILITY BENEFIT

The Subcommittee held a hearing on February 2, 1982, to discuss problems with the skilled nursing facility benefit under the medicare program. The program provides coverage for up to 100 days of "post-hospital extended care services" in a qualified skilled nursing facility following a hospital stay that lasts at least three days. Access to skilled nursing facility services is a serious problem for many medicare beneficiaries. In recent years, there has been increasing concern

regarding the significant number of medicare beneficiaries who inappropriately remain in high-cost hospital beds because no skilled nursing facility bed is available in the area ("hospital back-up"). In order to provide greater access and to encourage more skilled nursing facilities to participate in the medicare program, the Subcommittee considered proposed changes in the reimbursement system, as well as other changes including requiring dual participation of SNF's in both medicare and medicaid programs, repealing the current 3-day prior hospitalization and reducing the amount of paperwork required by medicare.

Subsequently, a provision was included in Public Law 97-248 requiring the Secretary of Health and Human Services to develop a legislative proposal which would provide that hospitals and skilled nursing facilities be reimbursed on a prospective basis under the medicare program. A provision was also included permitting the Secretary to eliminate the 3-day prior hospital stay requirement under conditions he finds will not result in increased program cost.

D. HOSPICE CARE

The Health Subcommittee examined medicare's coverage and reimbursement arrangements regarding terminally ill patients. Medicare has often been criticized for cutting off benefits in some cases for terminally ill patients because they require custodial rather than skilled care. On the other hand, there has been concern about the relatively high proportion of medicare outlays expended for care of beneficiaries in the last year or six months of life.

The Subcommittee held a hearing on March 25, 1982, to examine reimbursement problems of medicare beneficiaries who elect to accept hospice care rather than traditional medical care. Medicare did not recognize hospice care as a separate category of provider although some hospices did participate in medicare within existing provider classifications.

As a result of this hearing and deliberations by the Committee, the provisions of H.R. 5180, to provide reimbursement for hospices as a new category of provider under the medicare program, was included, as amended, in Public Law 97-248. The Subcommittee staff were directed to participate in the development of regulations to implement this provision, to monitor any problems associated with this benefit especially as relates to fraud and abuse, as well as to examine the results of the Health Care Financing Administration's hospice demonstration projects as they become available.

E. THE END STAGE RENAL DISEASE PROGRAM

The Subcommittee on Health, in conjunction with the Subcommittee on Oversight, closely monitored the development of regulations to implement amendments to the end stage renal disease program, enacted in Public Law 97-143. The End-Stage Renal Disease (ESRD) Program, established in 1973, is now responsible for providing care by dialysis for more than 60,000 patients with chronic kidney failure. Of these patients 14-15 percent dialyze at home on hemodialysis or continuous ambulatory peritoneal dialysis, and the remainder dialyze as out-patients in more than 1,100 hospital and free-standing dialysis

facilities. For several years, concern has been expressed about the increasing total cost of the Program, the relatively small percentage of patients treated by home dialysis, the high cost of outpatient dialysis in many hospital facilities, and the rate of physician reimbursement.

Under legislation enacted in 1978 and subsequently amended in 1981, by the Omnibus Budget Reconciliation Act, the Secretary of the Department of Health and Human Services was required to implement an incentive reimbursement system to assure cost-effective delivery of renal dialysis services and to encourage the use of home dialysis by suitable candidates. The statute required the Secretary to establish prospectively determined rates of reimbursement based on composite weighted formulas for hospital-based and independent facilities, taking into account the proportion of patients dialyzing at home, as well as the relative costs of providing services in different settings.

On February 12, 1982, the proposed regulations outlining the new payment system and rate-setting methodology were issued. The regulations immediately generated considerable controversy and criticism; questions were raised by facility administrators, physicians and patients about their objectivity, equity and potential effect on the stability of the program and the availability of services.

On April 22, 1982 the Subcommittee on Oversight convened a hearing which focused exclusively on the problems raised by the proposed regulations. Specifically, the hearing examined the inconsistent application of the methodology; the absence of an exception process; the absence of a transition period; the elimination of the 100 percent reimbursement provision for purchased home equipment; and the inadequacy of the Department's audit system.

At the conclusion of the hearing, the Department of Health and Human Services acknowledged deficiencies in the proposed regulations and agreed to consider the issues raised at the hearing before final publication of the regulations. The final regulations are to be issued in January 1983.

F. PROFESSIONAL STANDARDS REVIEW ORGANIZATIONS (PSROS)

On March 24 and 25, 1981, the Subcommittee on Health and Oversight held a joint hearing to obtain information on the cost-effectiveness and quality assurance activities of Professional Standards Review Organizations. The PSRO program was enacted in 1972 in response to congressional concern about the inadequacy of conventional methods of claims review as effective safeguards against unnecessary utilization. The program had frequently been characterized as excessively costly and ineffectual.

At the time the hearing was conducted, the Administration had proposed the phase-out of Federal funding for PSRO's. The hearing was held to gather additional information on PSRO effectiveness. Testimony was received from the Administration, the Congressional Budget Office, the General Accounting Office, spokesmen for PSRO's and representatives of the medical, private insurance, and business communities.

The Administration testified that it did not believe that PSRO's had been effective and that it intended to replace PSRO's and utilization review mechanisms with reforms which would promote competitive incentives to control utilization. Under the Administration's pro-

posals, all funding for the PSRO program would cease in two years. The Administration noted that it believed its competition proposal would be in place by that time.

The Subcommittees received testimony from CBO which had conducted an analysis of the impact of the PSRO program on health care costs. CBO concluded that PSRO's had been only moderately effective and that the savings attributable to the elimination of the program would offset the costs resulting from the additional utilization. CBO told the Subcommittees that the program had only a small impact on the budget and that changes in the level of funding would have only a small net effect.

The General Accounting Office did an analysis for the Subcommittees of the HCFA and CBO evaluations and concluded that there was not enough data to determine the effectiveness of PSRO's and that the program should not be eliminated until there was a better picture of what the effects would be.

Testimony was taken by the Subcommittees from a variety of witnesses including the American Medical Association, the American Association of PSRO's, the Washington Business Group on Health and others who had varying judgments as to the effectiveness of the program as a whole. Most witnesses agreed, however, that while some PSRO's had not been cost-effective, a number of PSRO's had proved very effective in their efforts to reduce health costs. The picture with respect to quality assurance was inconclusive.

Based on the testimony, it was evident that each PSRO had to be evaluated on its individual record. Thus, subsequent to the joint hearing, the Subcommittee on Health approved a provision, which was later enacted into law (P.L. 97-35) requiring the Secretary of HHS to evaluate all PSRO's and permitting the Secretary to terminate no more than one-third of all PSRO's before October 1, 1982, based on such evaluation.

More than a year later, the Congress adopted a Senate-passed provision which repealed the PSRO program and established a program of Utilization and Quality Control Peer Review (P.L. 97-248). Under the new program, the Secretary is authorized to negotiate individual contracts with review organizations in each area of the country. In addition, such review organizations will be permitted to contract with private organizations such as employers and with States for review of non-medicare patients.

G. WORKING AGED

As a part of the Tax Equity and Fiscal responsibility Act of 1982, the Congress adopted a provision which will require employers to offer their employees age 65 through 69 the same health benefits as are offered to their younger employees. Where an employee age 65 through 69 was covered under such a plan, medicare would become the secondary payor. The provision is effective January 1, 1983.

Two units of the Federal government were responsible for implementation of the law. The Equal Employment Opportunity Commission was responsible for carrying out the provision requiring that employers treat employees equally with respect to health benefits, and the Department of Health and Human Services was responsible for

the provisions making medicare the secondary payor. Because the measure was a complex one and required the coordination of two Federal agencies, the Subcommittee on Health made an effort to insure that the intent of the law was appropriately carried out. Lengthy draft regulations were reviewed and detailed discussions were held regarding the implementation of the provision. Special attention was given to the impact of the draft regulations on beneficiaries, employers and the medicare program.

H. COMPETITION IN THE FINANCING AND DELIVERY OF HEALTH CARE

On September 30, October 1, and 2, 1981, the Subcommittee on Health held hearings on proposals to stimulate competition in the financing and delivery of health care. The hearings were held for purposes of gathering information on recent increases in health care costs, looking at trends in health care delivery systems, and analyzing the potential impact on both costs and methods of delivery of proposals intended to increase competition.

The Subcommittee heard testimony from Alice Rivlin of the Congressional Budget Office, several noted health care economists, provider and beneficiary organizations, and the Administration. The Administration expressed its support for pro-competitive proposals and repeated its commitment to the development of a legislative proposal. A proposal had not been submitted by the Administration before the close of the 97th Congress.

Both CBO and the Department of Health and Human Services noted that health care costs continue to rise at a rate far the excess of the general rate of inflation. CBO reported to the Subcommittee that per capita spending for health care had risen 183 percent between 1965, the inception of the medicare program, and 1980. This had included an 84 percent increase in the quantity of services delivered.

The Subcommittee looked at the impact of proposals which would alter the tax treatment of employer paid health premiums and require employers to offer a multiple choice of health benefit plans. The Subcommittee also reviewed suggestions to increase beneficiary cost sharing and proposals to establish a predetermined per capita payment for the medicare program through HMO or voucher plans.

With respect to the tax changes and multiple choice of plans, the Subcommittee gathered information on current employer health plans including the cost of premiums, the level of benefits available, and the impact of offering less expensive coverage to employees. The Subcommittee also looked at questions of ease of administration of multiple plans and the impact of adverse selection among plans.

With respect to cost sharing and per capita payment plans, the Subcommittee solicited information on the effect of increased out-of-pocket expenses on beneficiaries, especially the elderly, and the impact of increased cost sharing on health care costs. While most economists believed there was evidence to support the conclusion that increased cost sharing might reduce health care costs, representatives of the elderly questioned whether medicare beneficiaries could afford to bear such costs.

The Subcommittee reviewed suggestions for capitated HMO or voucher plans. Testimony was elicited regarding the method of deter-

mining payment amounts under such a plan and incentives for reductions in health care costs. With respect to vouchers, the Subcommittee looked at the availability of options for the elderly, the administration of such plans, the possibilities for restructuring of the health delivery system, and other issues.

As noted above, the Administration had not proposed procompetition legislation by the close of the 97th Congress. The Congress did enact, as part of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248), legislation which provides 95 percent capitation payments to participating HMO's. While a medicare voucher plan was considered in the Ways and Means Committee, the proposal was not enacted into law. Other proposals reviewed by the Subcommittee as a part of the 1981 hearing were discussed further but none became law during the 97th Congress.

I. CATASTROPHIC ILLNESS EXPENSES

As a part of its continuing interest in the health care costs of the American people and the methods by which these costs are financed, the Subcommittee on Health sought information on the extent to which families experienced catastrophic illness expenses, the size of these expenses, the characteristics of families experiencing them, and the extent of insurance protection against these expenses. During the 96th Congress, then Health Subcommittee Chairman Charles B. Rangel requested that the Congressional Budget Office conduct a study of catastrophic illness and catastrophic health insurance. In mid-1981, CBO furnished to the Subcommittee a staff working paper analyzing catastrophic protection under employment-related health insurance and assessing the effects of mandating catastrophic protection.

In December 1982, CBO completed its study of catastrophic medical expenses among the non-elderly, non-poor population, and the Subcommittee on Health sponsored a briefing by CBO staff on the study report for interested members of the House and Senate and their staffs.

J. FINANCIALLY TROUBLED PUBLIC HOSPITALS

Public hospitals have principally shouldered the responsibility to provide needed health care services to low-income people who have neither public nor private insurance and cannot afford to pay for this care. However, reductions in Federal funds for various health and public assistance programs are having a significant and adverse impact on the capacity of the institutions to provide care to the needy.

The Subcommittee on Oversight conducted a hearing on January 12, 1982, in Denver, Colorado, to examine the fiscal stability of public hospitals in light of the funding reductions and to learn of the potential consequences for the health and well being of the people which these hospitals serve.

A comprehensive national profile of public hospitals does not exist. However, the testimony at the hearing revealed the following significant facts:

In 1980, the 1,778 state and local government community's hospitals comprised one-third of the nation's 5,830 community hospitals and one-fourth of all 6,965 hospitals in the United States.

In the 100 largest cities, public hospitals represent less than 2 percent of all hospitals, but almost one-fourth of all out-patient clinic services.

Medicaid funds account for between 35 and 80 percent of all revenues received by patients at public hospitals.

The financial status of public hospitals has become increasingly precarious over the past few years, resulting in the closing of several public hospitals in large cities such as Philadelphia and St. Louis. While public hospitals generally provide care without regard to patients' ability to pay, they are faced with a continuing high rate of inflation and a diminishing capacity of state and local governments to provide adequate fundings. Thus, reductions in Federal funds exacerbate an already serious problem. The record developed at the Subcommittee on Oversight hearing will be used in the next Congress as various Medicare financing proposals regarding public hospitals are considered.

PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

The Subcommittee on Public Assistance and Unemployment Compensation has legislative and oversight responsibility over the following programs under the Social Security Act: (1) Aid to Families with Dependent Children (AFDC); (2) Child Support Enforcement (CSF); (3) Supplemental Security Income (SSI); (4) Social Services (title XX); (5) Child Welfare, foster care and adoption assistance, title IV-F; and (6) Unemployment Compensation (UC). In addition the Subcommittee has legislative responsibility for the Federal Unemployment Tax Act (FUTA) under Chapter 23 of the Internal Revenue Code and for the Low-Income Energy Assistance (LIEA) program authorized by the Low-Income Home Energy Assistance Act of 1981.

In the 97th Congress, the Subcommittee pursued its legislative and oversight responsibilities pertaining to the public assistance and unemployment compensation programs under its jurisdiction and considered President Reagan's budget reduction proposals. Oversight activities were almost always related to specific legislative and/or budget reduction proposals.

A. PUBLIC ASSISTANCE

The Aid of Families with Dependent Children program is intended to provide grants to the States for needy children and their caretakers. The Child Support Enforcement program provides services to both AFDC and non-AFDC families to locate absent parents, establish paternity, and to assist in the establishment and collection of both court-ordered and voluntary child support payments. Supplemental Security Income provides monthly cash assistance to needy, aged, blind and disabled persons. Title XX of the Social Security Act authorizes grants to the States for social services. The low-income energy assistance program provides grants to the States to assist eligible households meet the costs of home energy.

The Subcommittee's legislative and oversight activities concerning the public assistance programs under its jurisdiction involved (1) consideration of proposals regarding the income and resources of pro-

gram recipients, (2) proposals regarding eligibility requirements and benefit levels, and (3) proposals regarding administrative improvements and Federal financial participation.

At the beginning of the 97th Congress, President Reagan proposed legislative changes and fiscal year 1982 budget reductions in each of the above-mentioned areas. The President's proposals restricted program eligibility and reduced benefit amounts and were designed to sharply reduce Federal expenditures in programs under the Subcommittee's jurisdiction.

The Administration's fiscal year 1982 budget proposed that public assistance Federal expenditures be reduced through the following major changes:

- (a) AFDC amendments:
 - Require retrospective accounting and periodic reporting in all AFDC cases
 - Count income of stepparents and other persons living in the household with AFDC recipients
 - Limit AFDC to children under age 18
 - Modify and limit AFDC earned income disregards
 - Establish gross income ceiling of 150 percent of State "needs standard"
 - Assume advance receipt of earned income tax credit
 - Permit States to count food stamp benefits and housing subsidies as income
 - Require community work experience programs
 - Limit allowable resources
- (b) Child Support Enforcement amendments:
 - Collection of spousal alimony
 - Mandatory fees for services to non-AFDC families
 - Finance incentive payments out of the State and Federal share of CSE collections
 - Intercept of Federal income tax refunds
- (c) SSI amendments: Require retrospective budgeting
- (d) Title XX, Child Welfare and Foster Care: Consolidate title XX with other programs in a block grant and reduce block grant funding
- (e) Low-Income Energy Assistance amendments: Consolidate low-income energy assistance and AFDC emergency assistance programs in a block grant and reduce block grant funding

It was estimated that these proposed changes would reduce Federal budget outlays for AFDC, SSI, social services and child welfare in fiscal year 1982 by \$2.3 billion.

During March 1981, the Subcommittee held two days of public hearings on the Administration proposals and alternative ways to achieve expenditure reductions. The Subcommittee received testimony from more than 75 witnesses. Material and testimony from 25 persons and organizations was submitted for the record. The witnesses included Administration representatives, Members of Congress, State and local officials, individuals and organizations representing public assistance recipients and advocates, business, labor, religious organizations and senior citizens groups. Administration representatives testified the President's proposals would target funds only to those most in need, encourage individual efforts toward self-sufficiency, and reduce administrative costs. The majority of witnesses, however, expressed con-

cern regarding the scope of the Administration's proposals and their impact on the disadvantaged. Many witnesses suggested alternative proposals to the Subcommittee.

In March and April 1981, the Subcommittee marked up its fiscal 1981 budget and legislative recommendations regarding public assistance programs within its jurisdiction. While the Subcommittee did not recommend all the proposals submitted by the Administration, it did recommend changes to target assistance payments, strengthen AFDC work incentives, reduce error and to improve administration.

In the AFDC program, the Subcommittee recommended legislative changes which:

(1) *Income and resources.*—Modified AFDC earned income and work expense disregards; limited the value of resources permitted for eligibility; and required States to consider available to a child income of a stepparent (living in the same home as the child) which exceeds specified levels;

(2) *Eligibility and benefits.*—Limited the eligibility of two-parent families where one parent is unemployed to families in which the principal earner is unemployed; restricted AFDC payments to citizens of the United States and lawfully admitted aliens, and deem the income and resources of the sponsor to an alien in an AFDC family available for three years after his or her entry into the United States; and permitted States to require AFDC recipients to participate in work experience assignments in which they would perform work in return for AFDC benefits; and

(3) *Administrative improvements and Federal financial participation.*—Required States to determine monthly benefits on the basis of the recipient's actual income in the previous month; required States to promptly take all necessary steps to correct any overpayments or underpayments; and limited the Federal share of AFDC costs to 57 percent.

The Subcommittee recommended legislative changes in the Child Support Enforcement program to enhance the collection of child support alimony obligations, to defray the cost of collection services to non-AFDC families and to modify the distribution of incentive payments to States or political subdivisions that collect child support payments on behalf of another jurisdiction. The Subcommittee also recommended legislative changes to improve the administration of the SSI program, to reauthorize the low-income energy assistance program with certain changes, and to limit Federal title XX training funds.

The Ways and Means Committee approved the Subcommittee's recommendations with certain amendments, and its proposals were incorporated into the full Committee's budget reconciliation report. The "Gramm-Latta" Budget Substitute, enacted as the Omnibus Budget Reconciliation Act of 1981, however, substituted for the Subcommittee recommendations many of the Administration's proposals.

In November 1981, the Subcommittee conducted an oversight field hearing in Memphis, Tennessee on the implementation and impact of fiscal year 1982 budget reductions in public assistance programs within its jurisdiction. The hearing was held jointly with the Subcommittee on Oversight of the Committee on Ways and Means and the Subcommittee on Health and the Environment of the Committee on

Energy and Commerce. The Subcommittee heard witnesses from Tennessee, Arkansas, and Mississippi, including the Governor of Tennessee, the Honorable Lamar Alexander, other State and local officials, public assistance and social services recipients, social service and health providers, and representatives of religious organizations and senior citizens groups. The Subcommittee also assisted the full Committee on Ways and Means to organize and conduct a series of field hearings in different parts of the country. These hearings examined the impact of policy changes and budget reductions mandated by the 1981 Reconciliation Act in programs within the jurisdiction of the Committee. A particular focus of the hearings was the impact of budget reductions on public assistance programs.

Information received by the Subcommittee during the hearings revealed the following: (1) reduced funding levels and the cumulative effect of program changes mandated by the 1981 Reconciliation Act were adversely affecting the disadvantaged, (2) a substantial number of needy individuals and families would lose cash and/or medical assistance and social services as a result of the changes, (3) changes in AFDC earnings disregards provided incentives for welfare recipients with jobs to decrease their work effort, and (4) States were encountering difficulty implementing the many changes mandated by the Reconciliation Act, particularly in the AFDC program.

At the beginning of the second session of the 97th Congress, President Reagan proposed new budget reductions and policy changes in public assistance programs under the Subcommittee's jurisdiction. These proposals were estimated to reduce Federal outlays for AFDC, CSE, SSI, Title XX and LIEA by approximately \$2.5 billion in fiscal year 1983.

The Administration's fiscal year 1983 budget proposed that Federal expenditures and public assistance expenditures in Subcommittee programs be reduced through the following major changes:

(a) AFDC amendments:

Prorate shelter and utilities for AFDC families in larger households

Count energy assistance as income

Mandatory job search for all AFDC applicants

Provide unemployed parents benefits only if parents participate in workfare

Include income of all unrelated adults in assistance units

Mandatory community work experience programs

(b) CSE amendments:

Restructure Federal matching

Require 6% fee for services to non-AFDC families

(c) SSI amendments:

Prorate first month's benefit based upon date of application

Definition of SSI permanent disability based on preponderance of medical factors

Coordination of SSI and OASDI cost-of-living adjustment under retrospective budgeting

In addition to the Administration's fiscal year 1983 budget proposed reduced authorization levels for Title XX Social Services, Child Welfare Services, Adoption Assistance and Foster Care, and for the Low-Income Energy Assistance programs.

The President's proposals were in addition to the fiscal year 1982 budget cuts and program changes enacted by the 1981 Budget Reconciliation Act. For example, the President's proposals reduced funding for Title XX social services by \$1.2 billion or 38.3 percent from its fiscal 1981 level; AFDC would have been reduced by \$2.2 billion, or 24.8 percent from fiscal 1981 levels.

David B. Swoap, Under Secretary of the Department of Health and Human Services (HHS) explained and justified the Administration's proposals stating that they would eliminate work disincentives and inequities, reduce overlapping benefits and target benefits on the needy, promote effective program operations and reduce the federal role in programs more appropriately administered by State and local governments.

The Honorable James B. Hunt, Governor of North Carolina, and Chairman of the Committee on Human Resources of the National Governors' Association questioned whether continued cuts in funding for needs-tested programs were fair or justified. Governor Hunt stated:

Because of deep cuts that have already been made and because (State need) to adjust now to the things that have already been done, we want to urge you to put a freeze on further cuts in block grants and State and local assistance and, that you also continue the needs tested entitlements at least at their current levels.

Marylee Allen, Director of Child Welfare, Children's Defense Fund, testified:

... the fiscal year 1982 changes in AFDC have devastated children and parents trying to work their way out of poverty. This year's proposed changes would cut deeper into the working poor. They would reduce State flexibility in administering work requirements. They would hit hardest at the poorest of the poor.

In light of the information received during its oversight field hearing in Memphis, Tennessee, in its March 15th Budget Report to the full Ways and Means Committee, the Subcommittee stated:

... with regard to the Administration's recommendations for additional reductions in fiscal year 1983 outlays, ... because of insufficient information and opportunity to evaluate the proposals, the Subcommittee is not in a position at the present time to recommend how it may proceed on the proposals under its jurisdiction. The Subcommittee intends to conduct hearings later this month and carefully evaluate the Administration's fiscal 1983 proposals, as well as other legislative proposals that may be before the Subcommittee ...

Subsequently, the Subcommittee held three days of hearings on the Administration's fiscal year 1983 budget and legislative proposals and other public assistance and unemployment compensation bills pending before the Subcommittee. The hearings were held on March 25; April 21 and 22, 1982. In announcing the hearings, Subcommittee Chairman Harold Ford, indicated, "Administration witnesses (and other witnesses) will be asked to provide what information they cur-

rently have on the implementation and impact of the public assistance, social services, low-income energy assistance and unemployment compensation amendments enacted last year in the Omnibus Budget Reconciliation Act of 1981."

In addition to the Administration's proposals, the hearings addressed the following public assistance bills:

AFDC, Title XX and Low-Income Energy Assistance

H.R. 5226 (Mr. Gradison) : Reimbursed States, at the State AFDC matching rate, for the costs of providing private health insurance coverage for individuals who lose eligibility for AFDC benefits and Medicaid because of earnings.

H.R. 5791 (Mr. Ford) : Increased Title XX Social Services funds by \$200 million per year for fiscal years 1983, 1984 and 1985. Increased Low-Income Energy Assistance Funds by \$100 million per year for fiscal years 1983-1985. Increased the amount of earned income that is disregarded in determining AFDC eligibility and benefit amounts.

H.R. 5871 (Mr. Matsui) : Required that Federal AFDC, Medicaid and Title XX Social Services matching funds be available to States at the time the State issued checks or warrants for expenditures under these programs.

Supplemental Security Income (SSI)

H.R. 5509 (Mr. Brodhead) : Limited the rate at which overpayments of SSI benefits may be recovered through adjustments in future benefits, where the overpayments involved were not the fault of the recipients.

H.R. 5911 (Mr. Stark) : Excluded burial plots and burial insurance policies in determination of an SSI applicant's resources.

On May 12, 1982, the Subcommittee approved H.R. 6369, legislation to provide incentives for welfare recipients without jobs to seek employment and those with jobs to continue their employment activity. (The legislation also provided additional weeks of Federal unemployment benefits for certain jobless workers.) Specifically, H.R. 6369 as approved by the Subcommittee (a) increased from \$30 to \$50 per month the AFDC earned income disregard; standardized and limited the work expense disregard, placed a ceiling on child care costs, changed the order of the "one-third" AFDC disregard so that it would apply to earnings remaining after all other disregards had been applied, (b) modified the AFDC disregards for purposes of eligibility determination, (c) repealed the provisions of P.L. 97-35 that limit to 4 months the application of certain disregards, (d) repealed provisions of P.L. 97-35 that limit AFDC eligibility to families with incomes below 150% of the State standard of need, (e) repealed the requirement that States assume those with earnings are receiving the earned income tax credit on a monthly basis, and (f) excluded certain State payments from consideration as countable income. H.R. 6369 was approved by the Ways and Means Committee and reported to the House.

Many of the President's budget recommendations were assumed in the First Budget Resolution for Fiscal Year 1983. During June 1982, the Subcommittee held public hearings on the changes in program public assistance programs under assumed in the House-approved Fiscal 1983 budget resolution. Witnesses included Administration

representatives, State and local officials, and representatives of public assistance recipients and social service providers.

Subsequent to the June hearings, the Subcommittee marked up its fiscal 1983 budget and legislative recommendations regarding public assistance programs within its jurisdiction. Based on the results of its oversight activities, the Subcommittee budget reductions were more modest than those proposed by the Administration. In addition, the Subcommittee urged restoration of strong welfare work incentives and the AFDC earned income provisions of H.R. 6369. The Subcommittee recommendations were approved by the Ways and Means Committee and incorporated in H.R. 6878, introduced by Mr. Rostenkowski and Mr. Gradison. H.R. 6878 embodied the tentative decisions made by the Ways and Means Committee pursuant to directives contained in the First Budget Resolution for Fiscal Year 1983.

B. CHILD WELFARE, ADOPTION ASSISTANCE AND FOSTER CARE

During the 97th Congress, the Subcommittee was involved in oversight activities regarding implementation of the Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272), legislation which had originated in the Subcommittee during the 96th Congress and signed into law on June 17, 1980.

Following the enactment of the legislation the Department of Health and Human Services (HHS) under the Carter Administration published proposed implementing regulations. In January 1981, the Reagan Administration withdrew the proposed regulations. New proposed regulations were not published again until July, 1982.

The Adoption Assistance and Child Welfare Act was intended to provide States additional resources and financial incentives to implement a comprehensive set of services and procedures in order to make needed improvements in child welfare and foster care programs. To be eligible for certain incentives funds, the Act requires HHS to certify that the State has implemented (1) an inventory of all children who have been in foster care longer than six months; (2) a statewide information system; (3) a case review system which includes a six month administrative review and an 18 month dispositional hearing; and, (4) a services program designed to assist in returning children to their own home or to be placed in another permanent home.

In July 1981, the Subcommittee learned that HHS notified States of its intention to permit State "self-certification" that procedures and services required by the Act had been implemented. Earlier in 1981, the Administration proposed legislation to convert the child welfare services adoption assistance and the foster care program established by P.L. 96-272 into a block grant.

In February 1982, the Subcommittee requested the General Accounting Office to conduct a study regarding HHS and State implementation of P.L. 96-272 and report its findings to the Congress.

In its request to GAO, the Subcommittee stated:

P.L. 96-272 was enacted with strong bipartisan support and this support for the new law continues in the Congress. However, it appears that officials of the Department of Health and Human Services are not carrying out their responsibilities under the law as evidenced by the fact that they have

not yet published implementing regulations and are persisting in administering the program as if it were a block grant. We believe that the federal government has a responsibility to provide block grant funding for social services through the title XX program and at the same time target federal resources and enforce federal requirements, as required by law, so that services for abused and neglected children and their families are significantly improved.

GAO staff involved in the study have met a number of times with the Subcommittee staff, with members of the Social Services Committee of the American Public Welfare Association and with other interested groups concerned with implementation of the law. GAO has selected seven (7) States for field investigation. In addition, a detailed questionnaire is being sent to the 34 States which self-certified as meeting the requirements of the law. GAO has completed its field investigations and is expected to submit its report to the Subcommittee in the near future.

C. SUPPLEMENTAL SECURITY INCOME (SSI)

The Subcommittee's oversight activities included examination of the impact of a provision in the 1981 Omnibus Budget Reconciliation Act (P.L. 97-35) which requires monthly retrospective accounting in the SSI program. Under prior law, computation of benefits was based on the income and resources for the current calendar quarter.

The objective of this change in SSI, sought by the Reagan Administration, was to compute benefits on the basis of the recipients actual income in a prior month, rather than projected income a current or future month, and thereby reduce Federal SSI expenditures. However, the Subcommittee found that the retrospective accounting procedure increased rather than decreased SSI costs. Increased cost resulted because, under the retrospective accounting procedure, SSI payments in July and August, increased by cost-of-living adjustments did not reflect similar cost-of-living increases in Social Security and other Federal pensions in the first two months that they are received. In addition, the Committee found it was highly questionable whether substantial savings would result from a decrease in erroneous payments under the retrospective accounting procedure. Ninety-two percent of all non-SSI income received by SSI recipients is Social Security and other Federal benefits which the Social Security Administration already has access to regarding to amounts payable to SSI recipients. Currently, most erroneous SSI payments are caused by recipient failure to report changes in circumstances and agency caused errors, neither of which will necessarily be corrected through retrospective accounting.

In December 1981, the House approved legislation reported by the Committee, H.R. 4961, to substitute a one month prospective accounting period in SSI for the retrospective accounting period which went into effect in April, 1982. The House conferees on the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) also sought to include a one month prospective accounting period as part of that legislation. Instead the conferees, at the insistence of the Administration, retained retrospective accounting and adopted an amendment to provide that

at the time cost-of-living adjustment are made, a recipient's SSI benefit will be based on the Social Security benefit received in the same month. Also, whenever the Secretary of HHS determines that there is reliable information concerning a recipient's income in a given month, the SSI benefit would be based on that information.

D. LOW INCOME HOME ENERGY ASSISTANCE PROGRAM

Since 1979, the Federal Government has provided assistance to low income households to help them with high home energy costs. During fiscal year 1981, the Home Energy Assistance Act of 1980, (title III of Public Law 96-232, the Crude Oil Windfall Profit Tax Act of 1980) authorized a program of grants to the States to provide energy assistance to low-income families. The authorization under the Home Energy Assistance Act expired on September 30, 1981. In March 1981, the Subcommittee began oversight activities in preparation for reexamining the program.

The Subcommittee invited a number of administrators of State home energy assistance programs to participate in an informal briefing for Subcommittee members and staff. The briefing and discussion session included representatives from various regions of the country to obtain information on reflect differences in home energy costs, types of fuel used and different administrative arrangements being used by States.

The information from the briefing, guided the Subcommittee's development of proposed reauthorization legislation and the Subcommittee's position in subsequent House-Senate negotiations on a new three year home energy assistance program. As part of the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) the Low-Income Home Energy Assistance Act authorized the Secretary of HHS to make grants to assist eligible households meet the costs of home energy.

Priorities and eligible population

While the Committee recognized that the elderly, disabled and low-income families are the most vulnerable to high energy costs, detailed federal statutory and regulatory requirements in the 1981 program to ensure priority treatment for such individuals and families were found to be unnecessarily complex and hindered timely implementation of the program.

The priority for the elderly and handicapped under the new law is stated by simply requiring that in conducting its outreach activities, States are to give priority to making the elderly and handicapped aware of the energy assistance available. Also, instead of BLS income standards for metropolitan areas forming the basis for income eligibility the criteria for the upper income limit is related to each State's median income.

Flexibility in State's use of funds

The desire by States to diminish the need for future energy assistance by weatherizing the homes of low-income individuals prompted the Subcommittee to provide in the new Act the option for States to use up to 15 percent of their allotment for weatherization or other energy related home repairs for low-income households.

States have the authority under the new Act to use up to 10 percent of their low-income home energy assistance allotment for services provided under title XX social services program or any Federal health block grant or the Federal community services block grant.

In addition, the Act allows States to carryover up to 25 percent of their allotment for one year for use in the following fiscal year.

E. TITLE XX SOCIAL SERVICES

The 1981 Budget Reconciliation Act consolidated the funding for social services and social services staff training and reduced the entitlement ceiling for the programs consolidated from a previous \$2.991 billion level in fiscal year 1981 to \$2.4 in fiscal year 1982. Determining the impact of this significant reduction in funding was an important part of the field hearings conducted by the Ways and Means Committee during November and December of 1981 and January of 1982. At the time of the field hearings or even by December 1982, it has not been possible for the Committee to determine for each State or nationally the number of families and individuals who were affected by the cut in Title XX funds.

However, the following excerpts from statements made by witnesses at the field hearings are typical of the numerous accounts reported directly to the Committee and from local and national press accounts of the impact of the 1981 budget cuts:

Brenda Yaun of Memphis, Tennessee, working mother of a handicapped child: "The Forget Me Not Day Care Center for my two year old handicapped child is closing next month. There is no place for my child to go. If I continue to work I will not qualify for the Easter Seal school. We're not asking for ourselves; we're asking for our children."

James Bennett, Director of Porter-Leath Children's Center in Memphis: "Porter-Leath is one of a number of agencies contracting with the Department of Human Services to provide services under Title XX. I want to tell you what those Title XX cuts have meant to the clients, especially the children served by contract agencies. Total dollars for contract services in Memphis were reduced by about \$2 million. Some services had to be eliminated entirely and 782 individuals no longer receive services. Most of these are children. In our Protective Service Emergency Shelter for abused, neglected and dependent children, we will serve some 50 fewer children next year."

Benjamin Eide, Staff Associate for Planning and Research for the Children's Home Society of Washington: "Preventive services were all but wiped out in the state of Washington. 96,139 individuals are affected by Federal cut-backs and consequent State cut-backs in services provided by the Bureau of Children's Services. Some examples of the cuts are: Family Support Services is considered for elimination (423 families will not get service); seasonal day care for farmworkers' families will not expand (275 children affected) and Indian reservation day care eligibility will be lowered with the result that there will be unsupervised children."

Kalman Hettleman, Secretary, Maryland Department of Human Resources: "As a result of the cuts in Title XX funds, we have had to

reduce our foster care staffing and reduce services to children leaving foster care. These cuts have affected a preventive component of our services, and we risk the long term costs of failure."

Dennis Hart, Director of Sacramento County Department of Social Welfare: "The State of California has a \$58 million shortfall for support of social services. Our social services staff is down 43 percent. Our prevention services have been demolished. This year, even our highest priority protective services have been hit. Child day care licensing and foster home licensing have lost more than half their staff. We can only hope that our reduced efforts will be enough to keep child placements as safe as they have been."

Librado Perez, Director of Alameda County, California Social Services: "In social services we are trying to provide services to 40,000 more people with one-third the staff we had before the eligible population increased by 40,000. This reduction can only hurt people—people who depend on a caretaker to keep them from living in an institution, people who abuse their children and want help, and the children who are the victims."

Dorothy Burse, Director, Citizens Multi-Service Center, Indianapolis: "Our backs are against the wall. There are no more notches in the belt. The Center has lost 50 percent of its service staff January 1981. The number of individuals requesting services has tripled."

The Title XX program has been a funding source for a large assortment of social services programs and activities and thus overlaps with numerous other programs and activities funded by federal categorical programs or from State or local funds. The Committee found that in response to the cuts in Title XX funds and in the other social services and health programs a number of States conducted a reexamination of all of the social and health programs to establish priorities in terms of services and clients.

A good example of this approach is that described by Alan Gibbs the Secretary of the State of Washington's Department of Social and Health Services which is the state agency responsible for programs of income assistance, medical assistance and refugee assistance, developmental disabilities, mental health, juvenile rehabilitation, services to the aging and adult and children's services.

The interaction between program cuts in Title XX and other block grants and changes in AFDC and Medicaid can be seen in the following excerpts from Secretary Gibbs' statement and the background material provided at the Committee's field hearing.

We made a very key decision early in the planning process, and that key decision was that we would not mirror-image the Federal cuts in this State. In some program areas, our programs were dependent on Federal funds to the tune of 85 percent, and in others 1 percent. The proposed Federal reductions in some programs could cause very deep cuts in one program area and lesser cuts in another.

We decided that it was in our best interest as a State to use this as an opportunity to reexamine all of the social and health programs and try to establish our priorities in terms of services and in terms of clients.

The plan then was to identify low-priority services, achieve savings by reducing them, and transferring State funds to make up for the loss of Federal funds, and that is indeed what we have done.

While we are losing \$70 million in Federal funds, we have not had to cut services by \$70 million. We did a number of things to make some management improvements, reduce regulations, charge fees for licensing and inspection, and charge fees for services that will account for \$50 million in savings.

The Department plans to add State funds to the following programs in order to offset loss of federal funds: Maternal and Child Health, Vocational Rehabilitation, Family Planning, Refugee Assistance, and AFDC administrative staff training. Certain programs funded through Title XX have been maintained at current levels or reduced less than the full percentage amount, even though Title XX funds available to the department have been cut. Among these are chore services, child protective services, and foster care staff services.

F. UNEMPLOYMENT COMPENSATION

Legislative and oversight activities during the 97th Congress pertaining to the Federal/State unemployment compensation system addressed four sets of issues: (1) Reagan Administration fiscal years 1982 and 1983 Budget recommendations to reduce unemployment compensation expenditures; (2) Financing proposals pertaining to the insolvency of the federal and many State unemployment compensation trust funds; (3) expiring provisions of Federal unemployment compensation law and other miscellaneous proposals; and (4) proposals to provide, on a temporary basis, additional weeks of unemployment benefits for jobless workers who exhaust other benefits.

1. *Reagan Administration Proposals to Reduce Unemployment Compensation Expenditures.*—The Reagan Administration's budget for fiscal year 1982 and fiscal year 1983 contained a number of legislative recommendations aimed at reducing Federal and State unemployment compensation expenditures. (Because State unemployment compensation trust funds are included in the unified Federal budget, reductions in State unemployment program expenditures reduce Federal budget outlays.)

The Administration's fiscal year 1982 budget proposed that unemployment benefits be reduced through the following changes:

(a) Federal/State Extended Benefits (EB) Program amendments:

- Repeal the National trigger
- Exclude extended benefits claimants in calculating extended benefit trigger rates
- Raise the mandatory State EB trigger from 4 to 5 percent (plus 120 percent factor) and increase optional trigger from 5 to 6 percent
- Require EB claimants to have 30 weeks of work or equivalent wages

(b) State benefit amendment: Mandate States to require claimants to accept minimum wage jobs after they have received 13 weeks of State benefits

(c) Unemployment benefits for ex-servicemembers(UCX) amendments: Deny benefits to ex-servicemembers who leave the military voluntary, including those who complete their term of duty under honorable conditions but decline to reenlist.

It was estimated that these proposed changes would reduce Federal budget outlays for unemployment benefits by \$2.4 billion in fiscal year 1982 and \$4.2 billion in fiscal year 1983; and that approximately 2 million individuals a year would lose unemployment benefits as a result of these changes in fiscal 1982 and fiscal 1983.

The Administration's fiscal year 1983 budget included two additional unemployment compensation legislative recommendations. One would further limit unemployment benefits for jobless ex-military personnel by providing Federal benefits only to ex-servicemembers who have been involuntarily discharged under honorable conditions because of demobilization, reduction in force, or disability incurred while in the service. This would exclude not only those who had the opportunity to reenlist, as provided under the fiscal year 1982 recommendations, but would also exclude those who leave the military because of a "record of indiscipline or failure to maintain skill proficiency." It was estimated that this would deny unemployment benefits to an additional 14,000 unemployed ex-military personnel and reduce expenditures by another \$30 million in fiscal year 1983.

The other Administration amendment would require State unemployment compensation programs to round State weekly benefits down to the nearest dollar. This was estimated to save about \$6 million in fiscal 1983 and \$33 million in fiscal 1984.

On March 11 and 12, 1981, the Subcommittee conducted public hearings on all of the Administration's unemployment compensation and public assistance legislative recommendations contained in the fiscal 1982 budget. Secretary of Labor Raymond J. Donovan explained and justified the Administration's proposed amendments and reductions in unemployment compensation as follows:

We propose a general tightening of requirements that will continue this much-needed protection and strengthen its basic insurance concept. We propose to target extended benefits to areas where high unemployment justifies Federal participation in paying the costs of these benefits and to assure that extended benefits are paid only to workers with significant work force attachment. We would require that the State laws assure that workers who have already drawn benefits for 3 months broaden their search for work. And we would change the requirements for ex-servicemembers to require that they, like all other workers, receive benefits only when they are unemployed due to no fault of their own.

These changes, which we believe will strengthen this multi-billion-dollar safety net for unemployed workers, will provide savings that will contribute to the President's budget reform plan.

Bert Seidman, Director of the Department of Social Security for the AFL-CIO, stated the following in opposition to the Administration's proposed unemployment compensation amendments:

The Administration has proposed a number of severe cutbacks in unemployment compensation which would have drastic effects on both the regular and extended benefits phases of the program. The proposed reductions would be achieved by slashing the Extended Benefits Program, requiring most unemployed workers to accept minimum wage jobs, and eliminating unemployment compensation for service members who leave the military service voluntarily.

The AFL-CIO is opposed to these and any other restrictions in the unemployment insurance program. Attached to my statement is a statement adopted by the Executive Council of the AFL-CIO urging the Congress to reject cutbacks in unemployment insurance and to restore those protections which have been an important part of this program.

The proposals of the Administration represent a negative response to the second highest unemployment levels since the depression.

The Interstate Conference of Employment Security Agencies, (ICESA), represented by William L. Heartwell, Jr., Executive Vice President, supported the elimination of the national extended benefits (EB) trigger, exclusion of EB claimants from the calculation of the EB trigger rate and raising the *optional* State EB trigger from 5 to 6 percent. ICESA opposed the proposed 20 weeks of work (or wage equivalent) EB requirement and the proposal to require claimants to accept minimum wage jobs after collecting benefits for 13 weeks. The organization did not take a position on the proposed increase in the mandatory EB trigger or the proposed changes in the UCX program. These positions were based on a poll of all State unemployment compensation administrators.

In concluding the testimony present at the hearings, Mr. Heartwell emphasized the following points:

... any modifications made to State or extended benefit programs will require 53 jurisdictions to enact conforming legislation. We urge you to allow sufficient time for the State legislatures to act. The imposition of the heavy penalty tax on a State's employers simply because the State did not have time to act, we certainly feel, would be unjust.

Second, the Interstate Conference understands that recommendations to modify and reduce benefit outlays in the regular benefit programs are very attractive to the Congress when the Nations faces substantial pressures to balance the Federal budget.

However, we would only point out that the inclusion of State unemployment insurance trust funds in the Federal unified budget accomplished through Executive order, creates an artificial sense of fund availability. The State unemploy-

ment trust funds financed entirely through each State's employer taxes are dedicated solely to the payment of regular unemployment insurance benefits to qualified workers in each State.

The State trust funds cannot be utilized for any other purpose or be borrowed from by the Federal government or other States. Therefore, we urgently request that the subcommittee reaffirm the basic principles of the Federal-State partnership by rejecting proposals which disrupt the integrity of the regular unemployment insurance programs of the States.

Subsequent to these hearings, the Subcommittee approved and recommended to the full Committee the Administration's proposals to repeal the extended benefits national trigger and to exclude extended benefit claimants in the calculation of extended benefit trigger rates. Regarding Federal unemployment benefits for ex-military service personnel, the Subcommittee rejected the Administration's proposal and voted to reduce the costs of the current program by making the following changes:

(1) Increasing from 1 to 2 years the period of continuous active military service an individual must have in order to qualify for Federal unemployment benefits;

(2) Prohibiting eligibility for unemployment benefits until 4 weeks after separation from the military; and

(3) Limiting the number of weeks of benefits a individual can receive based on military service to 13 weeks. (Under the law in effect at the time an individual could have been eligible for the maximum weeks provided under State law—which is 26 weeks in most States—plus up to 13 additional weeks of extended benefits if the program was triggered on in the State in which the ex-serviceman filed for benefits.)

The Subcommittee rejected the other unemployment compensation amendments proposed by the Administration.

It was estimated that the amendments approved by the Subcommittee would reduce unemployment compensation expenditures by a total of \$1,320 in fiscal year 1982.

The full Committee adopted the Subcommittee's unemployment compensation recommendations without change and included them in H.R. 3850, which contained all Ways and Means legislative recommendations for spending reductions developed in compliance with the reconciliation instruction included in the First Congressional Budget Resolution for fiscal year 1982.

In its fiscal 1982 reconciliation bill, the Senate Finance Committee, and subsequently the full Senate, included the Administration's ex-servicemembers unemployment compensation amendments and several of the amendments to the extended benefits program that were not contained in the bill approved by the House. In addition to the Administration proposals approved by the Ways and Means Committee and the House, the conference agreement between the House and Senate, which subsequently became the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35), included the following unemployment compensation amendments:

An increase in the mandatory State extended benefits trigger from 4 percent insured unemployment rate to 5 percent (main-

taining the 20 percent requirement), and an increase in the optional State trigger from 5 to 6 percent.

A requirement that extended benefit claimants have at least 20 weeks of work or the equivalent in wages in their "base period" in order to qualify for extended benefits.

Also, the 1981 Budget Reconciliation Act included the Administration's changes in unemployment benefits for ex-military personnel, as approved by the Senate, rather than the alternative changes in the current program contained in the House bill.

The proposal contained in the Administration's fiscal year 1983 budget recommendations to require States to round State unemployment compensation benefits down to the nearest dollar was adopted by the State after it had been modified to apply only to Federal/State extended benefits. The Senate provision became law as part of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

The Administration's fiscal 1983 budget recommendation to further restrict unemployment benefits paid under the Federal UCX program for ex-military personnel was rejected by both the House and the Senate. The amendments to the program developed by the Subcommittee as an alternative to the Administration's fiscal year 1982 recommendations, and that were subsequently passed by the House but dropped in the House/Senate conference on the fiscal 1981 Budget Reconciliation Act, were approved a second time by the Committee on Ways and Means and included as amendments to a tax bill, H.R. 4717. This bill passed the House and, with some modifications, the ex-servicemembers unemployment amendments were included in the Miscellaneous Revenue Act of 1982 (P.L. 97-362), which was enacted into law on October 25, 1982.

Under the provisions of P.L. 97-362, which superceded the requirements enacted in the Omnibus Budget Reconciliation Act of 1981, up to 12 weeks of Federal unemployment benefits, following a 4-week waiting period after separation, could be provided to unemployed ex-servicemembers who (1) had completed the initial term of active service they agreed to serve, (2) were separated under honorable conditions, and (3) meet the qualifying requirements of the State in which they file for benefits.

Ex-servicemembers who were separated prior to completing their initial term of active service could qualify for unemployment benefits if they were separated early, under honorable conditions, (a) for the convenience of the Government under an early release program, (b) because of medical disqualification, pregnancy, parenthood, or any service-incurred injury or disability, (c) because of hardship, or (d), if they had served for at least 365 continuous days, because of personality disorders or inaptitude. The provision is effective for separations on or after July 1, 1981, but only for benefits payable after the date of enactment.

Also, effective October 1, 1983, P.L. 97-362 requires that Federal unemployment benefits paid to ex-servicemembers be charged to the Department of Defense in the same manner as Federal benefits paid to former civilian Federal employees are charged to other Federal agencies.

2. Unemployment Compensation Financing Amendments.—A number of proposals pertaining to Federal and State unemployment compensation payroll taxes and Federal unemployment loans to States

were considered during the 97th Congress, and some important changes in the financing of unemployment benefits were enacted into law. These changes were largely in response to the lack of sufficient Federal and State unemployment tax revenues to meet benefit costs. For example, as of October 31, 1982, 18 States plus the District of Columbia, Puerto Rico, and the Virgin Islands had been forced to borrow from the Federal unemployment trust fund a total of over \$9 billion in order to pay State unemployment benefits and the State share of extended benefits. Also, at the end of fiscal 1982, the Federal unemployment compensation trust fund had borrowed over \$6 billion from the general treasury in order to meet the Federal share of extended benefit costs.

Included in S. 1377, the Senate Finance Committee's fiscal 1981 Budget Reconciliation bill, were amendments pertaining to Federal unemployment compensation loans to States and the repayment of these loans. The Senate amendments were addressed in the House/Senate conference on this bill and H.R. 3982 and, in modified form, were agreed to and included in the 1981 Omnibus Reconciliation Bill (P.L. 97-35).

The costs of regular State benefits and one-half of the costs of extended benefits are funded by State unemployment payroll taxes. If the benefit costs exceed State revenues, States draw down their accumulated surpluses from prior years. If those surpluses become depleted, States are allowed to receive Federal advances from an account which is funded through the Federal unemployment payroll tax (FUTA). Prior to the provisions contained in the 1981 Budget Reconciliation bill described below, no interest was charged on these loans.

States with an outstanding advance from the Federal Government must repay it fully within two to three years, depending on the month in which the loan was received. If a State does not fully repay an advance within this period, employers in the State become subject to an annual 0.3 percent increase in the *net Federal* unemployment tax rate. The standard net Federal unemployment tax, which is paid by employers in all States, as of January 1, 1983 is 0.7 percent on the first \$7,000 paid annually to each employee. The yearly 0.3 percent increase in the standard 0.7 percent net tax rate in States with outstanding Federal loans is applied to the calendar year beginning with the second consecutive January 1 in which the advance has been outstanding and continues until the advance is repaid fully. The proceeds from the increased tax are used to reduce the principal of the State's outstanding loan.

The Omnibus Budget Reconciliation Act of 1981 provided that, effective October 1, 1981 through December 31, 1987, in States that meet the solvency requirements described below, the automatic annual increases in the net Federal tax resulting from outstanding Federal loans would be limited to 0.6 percent or, if higher, the level that was in effect in the year prior to the year the State qualifies for the limitation.

In order to qualify for this cap on the automatic 0.3 percent yearly increases for tax years 1981 and 1982, a State had to meet the conditions of (A) and (B) described below. In subsequent years a State must meet the conditions of (A), (B), (C) and (D) described below:

(A) No State action was taken during the 12-month period

ending on September 30 of the taxable year in question (excluding any action required under State law as in effect prior to the date of the enactment of P.L. 97-35) which has resulted or will result in a reduction in such State's unemployment tax effort;

(B) No State action was taken during the 12-month period ending on September 30 of the taxable year (excluding any action required under State law as in effect prior to the date of the enactment of P.L. 97-35) which has resulted or will result in a net decrease in the solvency of the State unemployment compensation system;

(C) The estimated average unemployment tax rate in the State for the year in question (total unemployment taxes paid by State employers in the calendar year divided by total wages of employers subject to State unemployment taxes) is equal to or greater than the average of the ratio of benefit expenditures (minus reimbursable benefits) to total wages of employers subject to State unemployment taxes for the last 5 calendar years (as defined in the bill);

(D) The amount of the State's outstanding loans on September 30 of the tax year in question was not greater than the amount of outstanding loans for the State on September 30 of the third preceding taxable year (or, for taxable year 1983, September 30, 1981).

In addition to the cap on the net Federal tax rate, the 1981 Reconciliation Act provided that interest would be charged on unemployment loans to States received between April 1, 1982 and December 31, 1987. The rate of interest charged in any year would be the same rate as that paid by the Federal government on balances in State unemployment trust funds for the quarter ending December 31 of the preceding year, but no higher than 10 percent per annum.

A State would not have to pay interest on a loan that is repaid by September 30 of the calendar year in which the advance was received, if the State receives no new advances during the period remaining in the calendar year following the repayment. Interest would be payable on the last day of the fiscal year in which the loan is received. A State could not pay interest on Federal loans out of its unemployment trust fund.

Legislation developed by the Committee on Ways and Means and the Senate Finance Committee pursuant to the directives contained in the First Concurrent Resolution on the Budget for Fiscal Year 1983 (House and Senate versions of H.R. 4961, and H.R. 6878 as introduced by Chairman Rostenkowski) contained a number of unemployment compensation financing amendments. These bills were included in the House/Senate conference in August 1982 that resulted in the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

This Act included the following unemployment compensation financing amendments:

The Federal unemployment tax (FUTA) wage base was increased from \$6,000 to \$7,000, effective January 1, 1983. (This will require States, in order for employers to qualify for the 2.7 percent against the gross Federal tax rate of 3.4, to have a State unemployment tax base of at least \$7,000.)

The gross Federal tax (FUTA) rate was raised from 3.4 to 3.5 percent effective January 1, 1983. Employers in States with ap-

proved State programs will continue to receive the 2.7 percent offset credit under current law, so that the standard net Federal tax would be increased from 0.7 to 0.8 percent.

Effective January 1, 1985, the FUTA tax rate is increased to 6.2 percent (a permanent tax of 6.0 percent and a temporary extended benefit tax of 0.2 percent) with a credit of 5.4 percent, so the *net* Federal tax rate would remain at 0.8 percent.

60 percent of total FUTA revenues would be allocated to the Employment Security Administration (ESAA) and 40 percent to the extended unemployment compensation (FUCA) accounts in the Federal Unemployment Trust Fund. Upon repayment of the Federal general revenue advances to FUCA (and elimination of the 0.2 percent temporary tax), 90 percent of FUTA revenues will be allocated to ESAA and 10 percent to FUCA as under current law;

States would be permitted to make debt repayments out of their State trust fund accounts in lieu of further FUTA credit reductions provided the payments come from new funds generated through the State experience-rating system and/or benefit reductions;

The present law additional credit reductions in the 5th year of delinquent State loans was repealed so that credit reductions continue at an additional 0.3 percent each year; and

A State, under certain conditions would be allowed to reduce payments of interest on Federal unemployment loans to 25 percent of the amount due in any year, and thereby extend the payment of the total interest obligation over a 4-year period. (Interest would be charged on any deferral amount.)

3. *Expiring Provisions of Federal Law and Other Miscellaneous Unemployment Compensation Amendments.*—On October 28, 1981, the Subcommittee held a day of Public hearings on six unemployment compensation issues which are summarized below. In his introductory statement, the Honorable Harold E. Ford (D., Tenn.), Chairman of the Subcommittee, made the following observations:

Primarily because of the severe budget constraints, we probably will not legislate this year on all of the matters addressed in these hearings. However, because of the interest of many Members of the House, it is important that the public have this opportunity to present their views and information to the subcommittee of the impact on the provisions of the present law that are of concern to them.

The following is a summary of the six issues related bills that were the subject of these hearings:

1. *Extension of Reed Act.*—Section 903(c) of the Social Security Act, commonly known as the Reed Act, gives States authority to use a specified amount of unemployment compensation funds, on a revolving basis, for administrative rather than benefit purposes. Authority for States to use a portion of these funds expired on July 1, 1981. Authority to use an additional amount of the remaining funds expired on July 1, 1982 and all authority expires July 1, 1983. S. 1641 (Mr. Grassley) would extend the Reed Act authority for 10 years, retroactive to July 1, 1981.

2. *Extension of Exclusion from FUTA of Certain Alien Farm Workers.*—Under present Law, employers do not have to pay unemployment taxes on aliens admitted to the United States to perform agricultural work pursuant to sections 214(c) and 101(a)(15)(H) of the Immigration and Nationality Act. This exclusion from the Federal Unemployment Tax Act (FUTA) expires on December 31, 1981.

3. *Denial of Unemployment Compensation Benefits (UCX) for Ex-Servicemen Who Had the Opportunity to Reenlist.*—Section 2405 of the Omnibus Budget Reconciliation Act of 1981 disqualifies for Federal unemployment compensation benefits under the UCX program anyone who leaves the military at the end of an enlistment period if he or she was eligible to reenlist. H.R. 4433 (Mr. Mitchell of New York) would repeal the provision enacted in the reconciliation bill. H.R. 4573 (Mr. White) and H.R. 4686 (Mr. Tauke) would modify present law.

4. *Exclusion from FUTA of Student Interns over age 21.*—Under present law, wages paid to student interns for work performed as an integral part of the student's academic program are not subject to the Federal unemployment tax unless the student is over 21. It has been proposed that the age limitation be removed so that student intern wages would be exempt regardless of the age of the student.

5. *Reduction of Unemployment Compensation by the Amount of Pension or Retirement Pay.*—Under present law, States are required to reduce a person's weekly unemployment compensation payment by the amount of any work-related retirement pay or pension that is maintained or contributed to by a "base-period" employer. States may limit the reduction by an amount equivalent to any contribution the employee made toward the pension. A number of bills have been introduced that would change current law, including the following: H.R. 422 (Mr. Quillen), H.R. 531 (Mr. Roe), H.R. 1112 (Mr. Hollenbeck), H.R. 1195 (Mr. Solarz), H.R. 1429 (Mr. Ottinger), H.R. 1759 (Mr. Mitchell of New York), H.R. 1885 (Mr. Addabbo), H.R. 1902 (Mr. Downey), H.R. 1970 (Mr. Minish), H.R. 2808 (Mr. Weaver), H.R. 3486 (Mr. Bingham), S. 577 (Mr. Moynihan).

6. *Exclusion of Certain Fishermen from FUTA.*—Section 822 of the Economic Recovery Tax Act of 1981 excluded remuneration paid to certain fishermen from the Federal unemployment tax for calendar year 1981. The exclusion expires December 31, 1981.

At these hearings, speaking for the Administration, the Department of Labor witness said the Administration had "no objection" to the proposed 10-year extension of the Reed Act funds. The Administration opposed an extension of the exclusion of wages paid to certain alien farmworkers from the Federal unemployment tax; supported the removal of the 22-year maximum age limit for exclusion of student interns; and opposed any change in the current pension offset provisions. With regard to unemployment benefits for ex-military personnel, the Subcommittee was told that the Administration "has been examining the UCX program and may be making some legislative recommendations in the near future."

The Interstate Conference of Employment Security Agencies, which represents all State unemployment compensation administrators, testified in support of the extension of the Reed Act funds, urged modification of the UCX provisions enacted in the Omnibus Budget

Reconciliation Act of 1981, opposed all proposed exclusions from the Federal unemployment tax, and urged repeal of the current law requiring that unemployment benefits be reduced by certain retirement or pension benefits.

The testimony of the other witnesses that was presented at the hearings, or submitted for inclusion in the hearing record, is contained in the Committee on Ways and Means print number 97-30 "Certain Unemployment Issues Pending Before the Subcommittee."

Subsequent to the hearings, the Subcommittee approved and recommended to the full Committee on Ways and Means legislation that would (1) extend for 10 years the authority for States to use Reed Act funds for administrative purposes; (2) exempt from the Federal unemployment tax any wages paid to student interns, regardless of age, for work that is an integral part of the student's academic program; (3) extend for two years—from January 1, 1982 to January 1, 1984—the provision that excluded wages paid to certain alien farmworkers from the Federal unemployment tax; and (4) provide Federal unemployment benefits to certain ex-servicemembers as described in section 1 of this report. These provisions were adopted by the Committee on Ways and Means and included with tax and other provisions in H.R. 4717.

The amendments pertaining to the Peed Act, student interns, and alien farmworkers were enacted into law as part of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 96-248). In addition to these provisions, this act contained unemployment compensation amendments that (1) allow States to deny unemployment compensation benefits to nonteaching, nonresearch and nonadministrative employees of colleges and universities during periods between academic years or terms, under conditions that would make Federal law consistent in its policy toward such employees of all educational institutions; (2) encourage States to develop "short-time" compensation programs by directing the Department of Labor to develop model legislation that could be used by the States to establish such programs; and (3) for tax year 1983 only, exempt from Federal unemployment taxes wages paid by certain summer camps to employees who are full-time students.

4. *Additional Weeks of Unemployment Benefits for Jobless Workers Who Have Exhausted Other Benefits.*—On March 25 and April 22, 1982 the Subcommittee conducted public hearings on the Administration's fiscal year 1983 budget recommendations under the jurisdiction of the Subcommittee plus several public assistance and unemployment compensation bills that were pending before the Subcommittee.

The unemployment compensation bills included several that would repeal amendments to the extended benefits program enacted as part of the Omnibus Budget Reconciliation Act of 1981. For example, H.R. 5226, introduced by Mr. Echart, would restore the "national trigger," include extended benefit claimants in the calculation of extended benefits trigger rates, and keep the State trigger rates at 4 percent (plus 12%) or the optional 5 percent.

In addition to bills dealing with the permanent extended benefits program, the hearings addressed H.R. 6085, introduced by Chairman Ford, which would provide on a temporary basis, up to a maximum of

13 additional weeks of unemployment to individuals who exhausted their regular State and Federal/State extended benefits. These bills were introduced in response to the increasing unemployment rate, the projected loss of extended unemployment benefits due to amendments included in the 1981 Reconciliation bill, and the projected increase in jobless workers who were going to exhaust all State and extended benefits before funding jobs.

Labor unions, Members of Congress and other witnesses who appeared at the hearings testified in support of these and similar bills that would restore extended benefits and provide additional weeks of compensation on a temporary basis. They argued that, at least in certain areas of the nation, unemployment was at record levels and jobless individuals were beginning to exhaust all available benefits. The Interstate Conference of Employment Security Agencies, representing State unemployment compensation administrators, and the Department of Labor, speaking for the Administration, argued against these bills. The Honorable Malcolm R. Lovell, Jr., Under Secretary of the Department of Labor said:

As Secretary Donovan indicated in testimony before the full Committee on February 24, 1982, we do not need nor could we support any reversal or delay of the fundamental changes that were enacted in the Omnibus Budget Reconciliation Act of 1981. Unfortunately, unemployment is high. The concern exemplified by these proposals is understandable. However, I believe the basic program now in place is sufficient to address the recession-induced joblessness we are experiencing. I think it is important to note that the pending proposals would have an adverse budgetary impact. For example, delaying by one year the effective date of the new State triggers enacted by Congress last year would add \$1.3 billion to the fiscal year 1983 deficit.

Please keep in mind that we are estimating that a total of 11.5 million individuals will draw a total of \$23.3 billion in benefits during the current fiscal year. In fiscal year 1983, 10.6 million individuals will be paid \$21.0 billion in benefits, at an average weekly benefit amount of \$113.

In fiscal year 1982 all but a few States will trigger on 13 weeks of extended benefits increasing benefit duration to 39 weeks in those States. In fiscal year 1983 we estimate that 22 States will be paying extended benefits. Given the path of the recovery that we anticipate and the present experience with claimants exhausting regular benefits, we believe that a program of benefits beyond 39 weeks is unnecessary.

Subsequent to these hearings, the Subcommittee approved and recommended to the full Committee legislation that would provide additional weeks of benefits. The Subcommittee did not approve any of the bills that would repeal changes and reductions in the extended benefits program enacted last year. This amendment approved by the Subcommittee, which also contained AFDC work incentive amendments, was introduced by Chairman Ford and became H.R. 6369. As introduced by Chairman Ford, the bill provided up to a maximum of 13 additional weeks of unemployment benefits to jobless workers who had exhausted their State and extended benefits. The additional weeks of benefits

would be payable only in States where the extended benefit program was triggered on. The program would expire on September 30, 1983.

H.R. 6369 was approved by the full Committee on May 20, 1982 with an amendment which lowered the income thresholds at which unemployment compensation benefits become subject to Federal income taxes. The amendment lowered the income thresholds from \$25,000 to \$18,000 for married taxpayers filing a joint return and from \$20,000 to \$12,000 for single taxpayers.

Because there were insufficient funds under the current budget resolution to meet the costs of the bill, when H.R. 6369 was reported by the Committee on Ways and Means it was automatically referred under the Budget Act to the Appropriations Committee for 15 legislative days. On June 23, the Committee on Appropriations, without having taken any action on the bill, was discharged from consideration of H.R. 6369, and it was referred to the Rules Committee. No further action was taken by the Rules Committee or the House on the bill.

The provisions of H.R. 6369, however, were included in Subcommittee's fiscal 1983 budget recommendations to the full Committee; and the entire content of the bill was subsequently included in H.R. 6878, which contained the decisions tentatively made by the Committee on Ways and Means in compliance with the directives of the fiscal 1983 First Budget Resolution. The provisions of H.R. 6878 were included in the House/Senate conference that produced the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

House and Senate conferees agreed to, and the Tax Equity Fiscal Responsibility Act of 1982 (P.L. 97-248) contained a modified version of the temporary unemployment benefits program in H.R. 6369 and H.R. 6878. Under this program, effective September 12, 1982 through March 31, 1983, additional weeks of Federally financed unemployment compensation benefits—Federal Supplemental Compensation (FSC) benefits—are provided to jobless workers who have exhausted all other State and Federal unemployment benefits. The number of weeks of FSC benefits that jobless workers may receive depends on (a) the number of weeks of State unemployment benefits received by each claimant, and (b) the State in which the claimant lives. Qualified claimants are entitled to receive FSC benefits for one-half of the number of weeks they received State unemployment benefits, up to a maximum of 10, 8 or 6 weeks. The maximum is 10 weeks of FSC benefits in which Federal/State extended benefits are being paid or have been paid at any time since June 1, 1982. A maximum of 8 weeks is payable in the other States in which the insured unemployment rate equals or exceeds 3.5 percent; and up to 6 weeks of FSC can be paid in the remaining States. As of November 13, 1982, the FSC maximum was 10 weeks in 38 States, 8 weeks in 3 States and 6 weeks in 12 States.

The Act also included provisions lowering the income thresholds at which unemployment compensation benefits become subject to Federal income taxes.

On December 8, 1982, the Subcommittee held a day of hearings on H.R. 7327, a bill introduced by Chairman Ford that would increase the number of weeks of benefits provided under the temporary (FSC) program enacted as part of the Tax Equity and Fiscal Re-

sponsibility Act of 1982. Mr. Ford's bill would make the following changes in this program:

(1) For jobless workers who first received FSC benefits on or before December 1, 1982 (including those who have already exhausted their FSC benefits), the maximum number of FSC benefits payable in all States would be increased by 5 weeks. In other words, the 10-week States would be increased to 15, 8-week States would be increased to 13, and 6-week States would be increased to 11.

(2) For jobless workers who first receive FSC benefits after December 1, 1982, the maximum number of FSC benefits would be 13 weeks in all States.

The bill did not extend the FSC program beyond the current expiration date of March 31, 1983. The Congressional Budget Office estimated that the additional weeks of benefits provided under H.R. 7327 would increase the cost of the FSC program by \$650 million.

The Administration declined an invitation to appear at these hearings. The Subcommittee received a letter from Secretary of Labor Raymond Donovan urging the Subcommittee to defer any decision on the bill until the 98th Congress convenes in January, when the department would have the results of a study on "whether the program benefits are reaching those individuals most in need of assistance." Representatives of labor unions and Members of Congress, on the other hand, urged the Subcommittee to approve Mr. Ford's bill.

Immediately following the hearing, the Subcommittee approved without amendment and transmitted to the full committee H.R. 7327, requesting that it be scheduled for consideration as soon as possible.

No further action was taken on H.R. 7327. However, a Senate amendment to the Surface Transportation Assistance Act of 1982 (H.R. 6211) was agreed to in the House/Senate conference that added weeks to the Federal Supplemental Compensation (FSC) program. The conference agreement modified the number of weeks payable under the Federal Supplemental Compensation program as follows:

Sixteen weeks are payable in States with an insured unemployment rate of 6 percent or more;

Fourteen weeks are payable in States with less than 6 percent insured unemployment if the State was eligible for extended benefits at anytime between June 1, 1982 and enactment;

Twelve weeks are payable in States where the insured unemployment rate is below 6 percent but at least 4.5 percent, or if the State becomes eligible for extended benefits after enactment;

Ten weeks are payable in States where the insured unemployment rate is below 4.5 percent but below 3.5 percent;

Eight weeks are payable in all other States.

The conference agreement did not extend the program beyond the expiration date of March 31, 1982.

TARIFF, TRADE, AND CUSTOMS LAWS

The 97th Congress has been an active Congress for the Subcommittee on Trade in terms of both oversight and legislation. Members of the Subcommittee and the trade staff, through formal briefings and informal meetings, were in constant touch with agencies in relation

to the administration of statutes and programs under jurisdiction of the Subcommittee. Throughout the 97th Congress, Members and staff also met with private sector representatives (business, labor and consumers interests) and foreign delegations (government and private) on trade issues of concern to the Subcommittee. In addition to responsibility for multilateral and bilateral trade negotiations and agreements, the Subcommittee on Trade exercises oversight and legislative jurisdiction in the areas of customs and customs administration, the U.S. International Trade Commission, trade adjustment assistance, unfair trade practices, import relief trade matters, and special trade-related problems involving market access (including statistical programs involving exports, imports, and domestic production) trade with developing countries, operations of multinational corporations, and East-West trade.

A. TRADE AGREEMENTS OVERSIGHT

Enactment of the Trade Agreements Act of 1979 approved and implemented for the United States the trade agreements negotiated during the Tokyo Round of Multilateral Trade Negotiations (MTN), the most comprehensive trade negotiation in history. Subcommittee Members and the trade staff have maintained close and continual oversight of the implementation of the MTN agreements by the United States and by foreign governments, and of continuing developments under the trade agreements program.

The Subcommittee has received frequent briefings by representatives of the Executive branch having responsibility in the trade area. Members and staff have continued bipartisan visits to Geneva to attend meetings under the auspices of the General Agreement on Tariffs and Trade (GATT), including the Ministerial meeting of the Contracting Parties in November, 1982, to meet with foreign delegations, and to maintain close liaison with the U.S. Trade Representative's Office in Geneva. Oversight visits have also been made to key GATT member capitals.

Further, staff also continues to attend meetings of the private sector advisory committees representing industry, agriculture, labor, and consumers, continued under the Trade Agreements Act to provide advice to the Executive branch on MTN implementation and current trade policy issues. The Subcommittee, through its annual review under the Budget Act, seeks to ensure that the President's budget requests for the Office of the U.S. Trade Representative, the Department of Commerce, the U.S. Customs Service, and the U.S. International Trade Commission are adequate for those agencies to carry out their statutory functions to implement the MTN agreements and otherwise conduct the trade agreements program.

During the 97th Congress, trade oversight visits were made to Latin America (Brazil, Argentina, Venezuela, Colombia, Guyana, Panama and Costa Rica); the Caribbean (Jamaica, Barbados, Antigua, St. Lucia and the Dominican Republic); and the Far East (People's Republic of China, Hong Kong, Singapore, Malaysia, Thailand and Japan). In all countries visited, meetings were held with U.S. Em-

bassy officials, host government representatives, and representatives of both the American and local business communities to discuss bilateral and multilateral trade issues.

B. TRADE POLICY OVERSIGHT

Beginning October 28, 1981 and ending March 18, 1982, the Subcommittee on Trade held 14 days of major oversight hearings on U.S. trade policy, including policy objectives, development, coordination, and administration; administration and adequacy of U.S. trade laws; trade agreements policy, implementation and enforcement; and specific trade policy issues. Testimony was taken from invited witnesses representing the Administration, headed by Ambassador William E. Brock, U.S. Trade Representative, and from the interested public.

C. DOMESTIC CONTENT LEGISLATION

The most controversial trade legislation of the 97th Congress was H.R. 5133, the Fair Practices in Automotive Products Act. The bill provided for minimum average levels of domestically produced components for all motor vehicle manufacturers selling more than 100,000 units in the United States annually. The bill was introduced December 8, 1981 and referred only to the Committee on Energy and Commerce which reported the bill to the House on September 21, 1982. H.R. 5133 was sequentially referred to the Committee on Ways and Means for its consideration also on September 21, for only eight working days.

For a nine-day period, beginning on September 21, 1982, and ending October 1, 1982, the Subcommittee on Trade held comprehensive hearings on all aspects of the bill. The extensive list of over 50 witnesses included leaders from all segments of the U.S. economy, most of whom strongly opposed the bill.

While referral time made completion of Committee consideration of the bill impossible, the resultant 856-page hearing record proved useful to Members during Floor debate on the bill. On December 15, 1982, the House passed H.R. 5133 by a vote of 215 to 188.

D. CARIBBEAN BASIN ECONOMIC RECOVERY ACT LEGISLATION

On December 17, 1982, the House passed H.R. 7397, the Caribbean Basin Economic Recovery Act, more commonly known as the Caribbean Basin Initiative (CBI). This legislation, which was requested by the Administration and has been given a high priority by the President, has as its centerpiece an offer of one-way free trade, with certain exceptions such as textiles, footwear, leather goods, petroleum and canned tuna, to qualifying Caribbean countries. A \$350 million economic aid package which was part of the original proposal, has already been enacted and partially distributed. Further, the legislation contains tax provisions with respect to rum excise tax payments to Puerto Rico and the Virgin Islands, and deducting for business expenses relative to Caribbean conventions. The purpose of the CBI legislation is to alleviate a chronic economic crisis in the Basin that

threatens political and social stability throughout the region and creates conditions which Cuba and others seek to exploit through terrorism and subversion.

E. JAPAN-UNITED STATES BILATERAL TRADE OVERSIGHT

In many ways, the most important bilateral relationship both strategically and economically in the world today is the relationship of the United States and Japan. Our bilateral trading relationship, however, has been an area of considerable concern to Members of the Subcommittee on Trade during the 97th Congress. The United States trade deficit with Japan has continued to grow, while achieving resolution of existing trade problems has been slow and frustrating. Japan's market remains considerably less open to U.S. exports than the U.S. market is to Japanese exports.

Between August 15 and September 6, 1981, Representative Sam M. Gibbons, Chairman of the Subcommittee on Trade headed a three week Trade Mission to the Far East, one week of which was spent in Japan. In Japan, between August 31 and September 5, the delegation met with U.S. Embassy officials, high level Japanese Government representatives, and Japanese and American businessmen. The delegation divided, with one group visiting several high technology industrial plants while others participated in the 5th Shimoda Conference, organized by the Japan Society.

The Trade Mission concluded that the U.S. is facing an economic crisis precipitated by the brilliance of Japan's industrial drive, and that Japan must do more to open its markets while the U.S. must rejuvenate its economy in order to compete with Japan. On its return to Washington, the Subcommittee released a 93 page report which has been hailed as a highly significant contribution to the trade community's understanding of Japanese trade issues.

The Subcommittee on Trade monitored U.S.-Japan trade relations carefully during the 97th Congress. U.S.-Japan trade was a frequent topic of discussion at hearings, virtually regardless of the specified subject of the particular hearing. Further, Members met with visiting delegations of Japanese officials and businessmen. On February 23, 1982 the Subcommittee on Trade met with a delegation of Japanese Diet Members, led by Mr. Macumi Esaki. The delegation visited the United States to gauge U.S. reaction to a package of trade liberalization measures which were announced on January 30, 1982.

On November 29, 1982, the Subcommittee on Trade held a hearing on the current exchange rate relationship of the United States dollar vis-a-vis the Japanese yen. It has been called to the Subcommittee's attention with increasing frequency that as the yen has depreciated vis-a-vis the dollar, U.S. products have lost competitiveness relative to Japanese products. The Trade Subcommittee felt that the relationship is important to overall U.S. trade performance and met, therefore, to discuss the causes and effects of the exchange rate relationship, and its implications for U.S. trade policy. The Subcommittee on Trade plans to pursue further hearings on this topic in the 98th Congress.

F. CUSTOMS SERVICE OVERSIGHT

During the 97th Congress, the Subcommittee maintained close oversight of the U.S. Customs Service. In addition to authorizing legislation, the Subcommittee closely monitored the operations and organization of Customs.

As part of its oversight activities, Trade Subcommittee staff toured various ports and airports to examine Customs Service activities regarding enforcement operations, revenue collection and import processing. The airport oversight inspections were conducted partly in connection with the Subcommittee's recommendation to Customs to implement experimental tests which provide for more expeditious passenger clearance (Report No. 97-21). As a result of these activities, Customs and the Treasury Department instituted a comprehensive review of airport processing procedures and, in consultation with the Subcommittee staff, have effectuated changes in Customs clearance procedures at several International airports.

In October 1982, Subcommittee Chairman Sam M. Gibbons and staff toured Customs facilities in South Florida to observe the Customs enforcement role in the Vice President's South Florida Task Force. The oversight inspection included a tour of the Miami International Airport arrival facilities, a visit to Customs' facilities in Key West, Florida, a Customs air patrol flight, and a briefing on the Customs Air Support Branch at Homestead Air Force Base. The Subcommittee found that Customs and other agencies had made substantial progress in narcotics interdiction in the South Florida area, but required additional enforcement tools such as improvements in administrative forfeiture statutes and better coordination with the military and other agencies.

The Trade Subcommittee staff closely reviewed the implementation of a new Customs' enforcement program known as Operation Exodus. This program is designed to protect national security by intercepting illegal high-technology exports. As a result of oversight activities, several problem areas in export enforcement were identified which will form the basis for Customs oversight hearings by the Subcommittee early in the 98th Congress. At that time, suggestions to improve the operation of the program will be addressed.

Subcommittee staff also examined Customs issues in United States-Japan automobile trade by inspecting port and certification procedures in both the United States and Japan. U.S. entries of autos are accomplished with self-certification of safety standards by foreign manufacturers, while Japanese procedures require Government approval of each "type" of auto. The Japan visit included meetings with Japanese Customs officials, visits to port facilities in Tokyo and Yokohama, and dialogues with the U.S. businessmen and the U.S. embassy Customs attaché.

During the 97th Congress, staff and Subcommittee Members have again maintained oversight on the development of the Harmonized Commodity System under the auspices of the Customs Cooperation Council (CCC) in Brussels, Belgium. The Harmonized System is a

new international system for the Customs classification of goods in international trade. The U.S. participation, was mandated by Congress under section 608 of the Trade Act of 1974. The oversight activity involves monitoring executive branch and U.S. International Trade Commission participation as well as proceedings in the Harmonized System Committee of the CCC. Should a new international convention be adopted and the U.S. becomes a signatory, Congressional approval would be required to implement changes in the Tariff Schedules of the United States (TSUS). In addition, the Subcommittee continues to monitor the general activities of the CCC, a 93-member international organization which deals exclusively with Customs matters.

The House approved two Subcommittee legislative measures in the Customs area. One amends the Tariff Schedules to allow business documents to enter the United States in a no-entry-required status as "intangibles." Such documents primarily enter duty-free as provided in TSUS item 870.10. In addition, the amendment would prohibit nominal consignees from conducting customs business on behalf of any other person unless the consignee is a licensed customhouse broker. The House also approved a measure which would allow articles to be delivered into successive customs bonded storage warehouses as long as the ultimate purpose remains that of export.

The Subcommittee also worked closely with Members of the Committee on the Judiciary to approve Senate amendments to the Customs enforcement provisions in the Tariff Act of 1930. These amendments would increase the administrative forfeiture monetary limitations for seized property; provide Customs officers with additional statutory arrest authority; increase the "moiety" or informant reward authority to \$250,000 from \$50,000 in present law; and create a special Customs operating account known as the "Customs Forfeiture Fund" funded by the proceeds of forfeited property up to \$10 million, thereby removing forfeiture funds from the appropriations process and placing them under the supervision of the Committee on Ways and Means.

G. U.S. CUSTOMS SERVICE, U.S. INTERNATIONAL TRADE COMMISSION, AND
U.S. TRADE REPRESENTATIVE BUDGET AUTHORIZATION LEGISLATION

The Subcommittee provides oversight of major trade agencies of the Federal Government through the consideration of authorizing legislation for the Customs Service, U.S. International Trade Commission, and the Office of the U.S. Trade Representative. In 1981, the Committee reported an authorization bill (H.R. 2540) which passed the House on June 2. The Senate, however, never acted on the bill. H.R. 6094, the fiscal year 1983 authorization bill reported by the Committee in 1982 was passed by the House on April 28, and the Senate with amendments on September 30. Final approval by both Houses occurred on December 21, in the closing minutes of the 97th Congress.

In hearings and legislation relating to the Customs Service, the Subcommittee made certain recommendations with respect to overtime pay to Customs inspectors; required reductions in the number of Customs' regional and district officers; prohibited implementation of proposals to accelerate the collection of import duties; and recommended increases in rates for certain overtime charges in order to recover

fully the costs of such services. In advance of final Congressional action on H.R. 6094, Customs has closed two regional offices in San Francisco and Baltimore and consolidated their activities with other regions.

With respect to the USITC, through hearings and authorization legislation, the Subcommittee has limited increases in expenditures and helped to create one of the most efficient agencies in the Federal establishment, at a time when the Commission's caseload has increased dramatically reflecting poor economic conditions worldwide. Subcommittee Members and staff maintain day-to-day consultations with Commissioners and the Commission staff with respect to specific issues and operation and administration of import relief and unfair trade practice statutes.

Hearings and authorization legislation enable the Subcommittee to oversee the operation of the office of the U.S. Trade Representative. As an Ambassador with Cabinet rank, the U.S. Trade Representative is responsible for developing, coordinating, and implementing U.S. trade policy. As explained in the trade agreements and trade policy sections above, the Subcommittee and its staff are in daily contact with the USTR officials, consulting on current trade issues, negotiations and planning for bilateral and multilateral trade activities.

H. MISCELLANEOUS TARIFF AND TRADE LEGISLATION

During each session of the Congress, the Subcommittee on Trade holds public hearings and reports to the full Committee on Ways and Means miscellaneous tariff and trade bills proposing temporary duty reductions, suspensions of duties, or changes in classification relating to individual products or import entries. These bills are carefully considered in light of compelling circumstances of inadequate domestic supply, unusually demanding conditions, or long-run changes in market conditions warranting special legislation. The legislative activity devoted to miscellaneous bills provides an important oversight tool for reviewing the tariff system and its impact on individual competitive situations.

During the 97th Congress, the Subcommittee favorably reported 51 miscellaneous trade bills, all but one of which were subsequently reported by the Committee on Ways and Means. Forty-eight miscellaneous trade bills passed the House in two omnibus bills, H.R. 4566 and H.R. 6867. Subsequently in the closing hours of the 97th Congress, the House and Senate agreed on and passed 58 such bills.

I. TEXTILE PROGRAM OVERSIGHT

The Trade Subcommittee exercises strong oversight on the Multifiber Arrangement (MFA) which, under a system of bilateral agreements, regulates world trade in textiles and apparel. For example, Members and staff consulted extensively with the Administration during renegotiation of the MFA in 1981. The MFA was subsequently extended for four and one half years from January 1982 through July 1986. Further, the Subcommittee conducts continuous consultations with our textile negotiators on renegotiation of bilateral MFA agreements.

While the Subcommittee does not have appropriations authorization jurisdiction over the trade functions of the Commerce Department, annual budget hearings have been used as an opportunity to review Commerce programs. In particular, the Administration textile program grew out of the Subcommittee's work on textiles, the Multilateral Trade Negotiations, and the 1979 countervailing duty waiver extensions. This program, designed to improve the operation of the Multi-fiber Arrangement bilateral quotas, to promote exports, and to improve the competitiveness of the U.S. textile and apparel industry, is a major development for one of America's key industries. The Subcommittee holds periodic briefings to monitor the implementation of the program and to ensure its successful application.

J. EAST-WEST TRADE OVERSIGHT

Title IV of the Trade Act of 1974 sets forth specific freedom of emigration requirements which limit the President's ability to grant most-favored-nation status to certain nonmarket economy countries. The Subcommittee on Trade continued its oversight activities regarding trade developments and emigration policies of Eastern European countries, including the Soviet Union, and China. The Subcommittee favorably considered the continuation of the general authority under section 402 to waive the freedom of emigration requirements and the extension of specific waivers with respect to Romania, Hungary, and China. On August 10, 1982, the Subcommittee on Trade reported H. Res. 521, a resolution disapproving the extension of the waiver authority recommended by the President with respect to Romania, unfavorably to the Committee on Ways and Means. On August 12, 1982, the Committee ordered H. Res. 512 reported unfavorably. On August 18, 1982, the House agreed to a motion to postpone consideration of H. Res. 521 indefinitely, thereby preventing disapproval of MFN for Romania.

As noted above, between August 17 and 23, 1981, members of the Subcommittee on Trade and other members of a Trade Mission to the Far East visited the People's Republic of China and met with PRC Government officials and businessmen and with U.S. Embassy personnel and American businessmen to discuss economic and trade problems. The growth of U.S.-PRC trade has been tremendous, and long-range potential is large, but unpredictable. The delegation found that, in general, U.S.-PRC trade agreements are working well.

K. TRADE ADJUSTMENT ASSISTANCE LEGISLATION

The most recent oversight work by the Subcommittee on Trade on trade adjustment assistance began early in 1981 in connection with Administration proposals submitted with the President's budget for FY 1982, which called for major revisions of the program for workers in order to reduce budgetary costs. The Administration also proposed elimination of the funding for the firm program.

As a result of extensive hearing testimony and informal staff consultations, the Subcommittee developed legislation incorporating most of the Administration proposals. The major change in the worker program made weekly cash benefits an extension of unemployment compensation tax additional weeks rather than a supplemental and

concurrent benefit. Both the worker and firm programs were extended for one year to terminate September 30, 1983. H.R. 3982 was enacted on August 13, 1981 as title 25 of PL 97-35, The Omnibus Budget Reconciliation Act of 1981.

In 1982, the Subcommittee on Trade developed and considered but did not report the bill H.R. 6482, which amends the trade adjustment assistance program for workers, *inter alia*, by easing worker certification standards and creating an entitlement for worker training.

L. IMPORT RELIEF STATUTE OVERSIGHT

Under section 201 of the Trade Act of 1974, industries and workers may apply for temporary relief from import competition. Under the law, if the U.S. International Trade Commission finds serious injury to the domestic industry, it recommends an import relief remedy to the President. The President may accept, modify, or reject the Commission's recommendation. Under the Trade Act, the Congress may disapprove a Presidential decision not to follow the Commission's recommendation by passing a disapproval resolution in both Houses during a period of 90 legislative days after the President's decision. Favorable action on such a disapproval resolution would require the President to implement the ITC recommendations on import relief.

This veto authority in the Trade Act places a clear oversight responsibility on the Committee on Ways and Means and its Subcommittee on Trade. The Subcommittee examines the relevant technology products. Further, hearings were held on extension of U.S. implementing legislation with respect to the international coffee and sugar agreements; on the Nairobi Protocol to the Florence Agreement which, under certain conditions allows duty-free treatment on importation of educational, scientific, and cultural materials; and other miscellaneous tariff bills.

